

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW
OF
UNIVERSITY RECHARGE CENTERS AT
THE UNIVERSITY OF IOWA
IOWA CITY, IOWA**



**JUNE GIBBS BROWN
Inspector General**

**JULY 1995
CIN: A-07-95-00909**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-95-00909
July 7, 1995

Ms. Mary Jane Beach, Controller
University of Iowa
Business Office
2B2 Jessup Hall
Iowa City, Iowa 52242

Dear Ms. Beach:

This report provides you with the results of our *Review of University Recharge Centers* at the University of Iowa, Iowa City, Iowa (University). Our review covered operations during the period of July 1, 1990 through June 30, 1993 for selected University recharge centers. The purpose of our review was to determine the adequacy of University procedures and controls over the operation of recharge centers.

The University generally operated its recharge centers in a satisfactory manner. Based on the recharge centers reviewed, however, we found the need for improved procedures and controls to fully comply with all the requirements of Office of Management and Budget (OMB) Circular A-21, Costs Principles for Educational Institutions.

In five recharge centers selected for review, we found: billing rates were not periodically adjusted to achieve break-even (four centers); equipment was improperly expensed in the year purchased (three centers); transfers were improperly made to a capital reserve fund (one center); and, users were billed at different rates (one center). We are recommending that the University implement certain procedures and controls over the operation of recharge centers. The University agreed with our recommendations and its response is included in its entirety in Appendix A.

Background

During Fiscal Year 1993, the University had about 27,000 students and received about \$99 million for Federally sponsored agreements. The University had procedures for operating *central research support facilities*. These facilities are similar to units defined as *specialized service facilities* in OMB Circular A-21. In this report, we have used the term *recharge centers* to mean *central research support facilities* and *specialized service facilities*.

Scope

Our review was made in accordance with generally accepted government auditing standards. The objectives of our review were to determine, as required by OMB Circular A-21, whether

the University had adequate procedures and controls related to the operations of selected recharge centers. Specifically, we determined whether the recharge centers:

- ① Adjusted billing rates periodically to recover costs,
- ② Billed users equitably,
- ③ Removed unallowable costs from the billing rates,
- ④ Recovered capital equipment costs properly, and
- ⑤ Expended funds only for their operations.

We judgmentally selected five recharge centers for review: Telecommunications, Engineering Computer Aided Design (CAD) Research, Mass Spectrometry, Animal Care, and Bio-computing. To accomplish our objectives, we reviewed the recharge centers financial statements, transactions, and policies covering the period July 1, 1990 through June 30, 1993. We conducted our review at the University during December 1994.

RESULTS OF REVIEW

Billing Rates

The University had not periodically adjusted billing rates to eliminate operation surpluses and deficits in four of the recharge centers. The Telecommunications and Bio-computing recharge centers had a net income from operations each year. In contrast, the Engineering CAD Research and Mass Spectrometry recharge centers had net losses from operations each year. The net income/(loss) from operations were: ↓

FISCAL YEAR	TELE-COMMUNICATIONS	BIO-COMPUTING	ENG. CAD RESEARCH	MASS SPECTROMETRY
1991	\$ 620,500	\$ 71,749	\$(36,011)	\$(96,564)
1992	671,000	44,880	(170,235)	(87,370)
1993	406,500	65,439	(78,316)	(147,920)
TOTALS	\$1,698,000	\$182,068	\$(284,562)	\$(331,854)

The OMB Circular A-21, Section J, provides that universities are not allowed to recover more than the aggregate costs of recharge center services. The Circular provision also requires rates to be reviewed periodically and adjusted if necessary. Specifically, Section J.44.c states:

The cost of such institutional services when material in amount will be charged directly to users, including sponsored agreements based on actual use of the service....

Charges...should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution and the cognizant Federal agency.

...It is not necessary that the rates charged for services be equal to the cost of providing those services during any one [sic] year as long as rates are reviewed periodically for consistency with the long-term plan and adjusted if necessary.

Three recharge centers had developed their billing rates based on goals that conflicted with the Circular provisions. Telecommunications billed at rates which provided net income of at least 20 percent of its annual debt service requirement (required by its bond covenants). Bio-Computing billed at rates to provide surplus funds for the purchase of a new computer. Mass Spectrometry billed at rates below costs to remain competitive in obtaining sponsored agreements for the University.

We found that Engineering CAD Research had not made cost studies to set its billing rates. Rather, this recharge center had based the billing rates using budgeted costs which materially differed from historical costs. We also found that this recharge center billed some users at rates below the scheduled billing rates.

According to OMB Circular A-21, recharge centers should bill all institutional users the same rates. Because the University did not develop billing rates based on actual costs (including net income and losses), the recharge center rates were inaccurate. Consequently, users may have been charged inequitably, and excessive surpluses or deficits in recharge center operations may occur.

Equipment Costs

In three of the recharge centers, the University expensed equipment (costing \$500 or more) during the year of purchase. Also, one recharge center (Telecommunications) made transfers to a reserve fund to purchase new equipment. This recharge center's transfers were not based on equipment depreciation schedules.

The OMB Circular A-21, Section J.12 provides that universities shall recover equipment costs based on depreciation or use allowance. Section J.16 defines equipment as tangible personal property with a useful life over two years and an acquisition cost of \$500 or more.

The University had a policy to recover equipment costs through depreciation. However, the University did not review the operations of recharge centers to verify that equipment costs were being recovered through depreciation.

Fund balances of the recharge centers included the expensed equipment, and the transfers to the reserve fund. Since the fund balances affected the billing rates, the recharge centers may have improperly charged users.

Recommendations

We recommend that the University implement recharge center policies, procedures and controls which provide for:

- ① monitoring fund balances and billing rates,
- ② periodic rate studies supported by current cost data,
- ③ adjustment of billing rates to eliminate surplus and deficit fund balances,
- ④ billing all institutional users the same rates, and
- ⑤ recovery of capital equipment costs through depreciation.

Auditee Response

The University agreed with our report recommendations.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determination as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to each of the recommendations in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

Sincerely,



Barbara A. Bennett
Regional Inspector General for
Audit Services, Region VII

Enclosure

HHS Action Official
Acting Director, Region VI
Division of Cost Allocation
1200 Main Tower Building
Room 1130
Dallas, Texas 75202

THE UNIVERSITY OF IOWA



June 2, 1995

Barbara A. Bennett
Regional Inspector General
for Audit Services
DHHS/OIG
Office of Audit Services
Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

RE: CIN: A-07-95-00909

Dear Ms. Bennett:

The University of Iowa would like to take this opportunity to respond to your draft report providing us with the results of your Review of University Recharge Centers at The University of Iowa as referenced above.

Our response will address the five recommendations cited on page 4 of the draft.

RECOMMENDATION NO. 1

Monitoring Funds Balances and Billing Rates

The University will review its policies and procedures to identify ways of improving controls that provide additional regular oversight of fund balances and billing rates. Monitoring criteria will be developed to ensure the controls are implemented and followed.

RECOMMENDATION NO. 2

Periodic Rate Studies Supported by Current Cost Data

The University will review and improve upon its policies and procedures to ensure that recharge centers are covered by a work plan that includes periodic rate studies supported by current cost data in accordance with the requirements of OMB Circular A-21.

RECOMMENDATION NO. 3

Adjustment of Billing Rates to Eliminate Surplus and Deficit Fund Balances

The development of standard monitoring criteria in conjunction with a work plan ensuring that periodic rate studies are performed on recharge centers will identify situations requiring an adjustment of billing rates.

RECOMMENDATION NO. 4

Billing All Institutional Users the Same Rates

Recharge center policies will specify that internal users pay the same rate per unit of usage, or specify that billings to federal awards are at the lowest rate.

RECOMMENDATION NO. 5

Capital Equipment Costs are Recovered Through Depreciation

The University will review its policies and ensure inclusion of depreciation for purchase and replacement of necessary equipment in the rate structure for individual recharge centers. Purchase and replacement of recharge center equipment funded through revenues generated by the centers will be recorded in the University's Plant Fund. Transfer of the depreciation component of recharge center revenues to the Plant Fund are made periodically during the fiscal year.

If you have any questions pertaining to our response, please don't hesitate to contact me at (319) 335-0060 or Mr. Charles Wolfe, Manager-Grant Accounting at (319) 335-0074.

Sincerely,


Mary Jane Beach
Controller