

Procedure 1410 PR.02 Internal Service Providers: Rate Calculations

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Overview

An Internal Service Provider (ISP) is a unit separately organized to provide goods and/or services to other University Organizational Units or Departments and charge for those goods or services based on the allowable costs of the operation. ISPs may also provide goods and/or services to external customers.

The ISP's calculation of the rates charged must adhere to federal costing principles and may not include unallowable costs because the users of those services may be charging federal funds or charges from the ISP may be included in the Facilities and Administration (F&A) rate. All users within the University who charge sponsored rates must be charged consistently at the same rates, unless discounts are charged to a unique expenditure type. University customers who charge non-sponsored awards may be charged a surcharge equal to the pro-rated share of the ISP's federally unallowable costs under OMB Circular [A-21](#), (A-21) which must also be recorded in a unique expenditure type. External Users are to be charged rates at least equal to or higher than the rates charged to internal non-sponsored users. Since billing rates are calculated based on estimated costs and estimated units of usage it is not expected that income and expenses will net to zero in any one year. However, the rates should be calculated to break even over a reasonable period of time. Rates must be reviewed at least annually and adjusted as necessary to ensure there is no accumulation of large surplus or deficit balances, as federally calculated. (See [Rate Calculation Form](#) and related [Instructions](#) for this calculation).

Reason for Procedure

This procedure outlines a process for Internal Service Provider (ISP) rate calculations to ensure that the rates charged are (1) cost based, and are designed to recover no more than the aggregate costs of providing the service, (2) do not discriminate against federally funded programs (3) are reviewed annually and (4) adhere to other provisions of A-21.

Procedure Sections

1. Rate Calculation Steps

A. Accumulate Current Costs of ISP

Annually, all costs for each service that an ISP provides should be accumulated in its own unique account (as specified in [Procedure 1410 PR.03 Internal Service Providers: Accounting and Billing](#)). If an ISP accumulates its costs in a unique organizational unit (Org), but provides several goods or services, the costs of each good or service should be accumulated in separate projects, so that each rate will be based on costs of providing the goods and/or service. If it is not practical for an ISP to accumulate costs in separate Projects for each good or service, the ISP must meet with the ISP Standards Committee to determine an acceptable alternative.

B. Calculate Current Recoverable Costs

Only costs that are allowable and allocable expenses (hereafter referred to as 'recoverable costs') can be included in the rate calculation. Typical recoverable costs include salaries, wages and fringe benefits, materials and supplies, travel, and service and maintenance agreements (refer to [Procedure 1305 PR.04](#) for some common unallowable costs). Therefore, any unallowable costs accumulated in the unique account for goods and/or services must be removed from the future recoverable cost estimate (discussed at Section C. below) prior to the rate calculation. Unallowable costs should not be confused with those costs, such as office supplies, network fees and administrative salaries, which are allowable, but not typically as direct charges to federal awards. See [Policy 1403](#) Charging of Administrative and Clerical Salaries and Certain Other Expenses to Federal Funds for further discussion regarding such costs. Those costs typically not allowed as direct charges to grants may be included in an ISP's rate.

There are also certain costs under [A-21](#), which cannot be included in the recoverable costs of an ISP, such as capital equipment purchases, fringe benefits charged at University rates and internal interest and amortization. Instead, the costs of the federally defined equipment depreciation and fringe benefits at federally negotiated rates should be included. Other facilities related costs may be included. These and other adjustments are discussed further in [Form 1410 FR.14 Instructions](#). The Cost Analysis Office within the Grants and Contracts Financial Administration (GCFA) department will assist in determining the amount of the adjustments.

Costs which are funded by a sponsored award may not be included in the recoverable costs of an ISP.

The recoverable costs, in all years except the start-up, must also be adjusted by any surplus or deficit in the account fund balance as described below:

- Any federally calculated surplus in fund balance in excess of 60 days of operating expenses should be included as a reduction in the recoverable cost estimate, thereby reducing future rates charged.
- However, if an ISP has a much larger federally calculated surplus, that surplus does not need to be fully eliminated in one year by reducing the subsequent year's rates, if a plan exists to reduce it over a 2-4 year period and the plan is approved by GCFA.

If a prior year surplus is part of the rate calculation and if goods or services are charged to Federal awards, as well as charged to non-Federal awards utilizing non-registered stem cell lines, please contact GCFA during the rate setting process for guidance.

- If there is an unplanned federally calculated deficit (one caused by expenses greater than estimated or less than expected usage) the subsequent year recoverable cost estimate should be adjusted upward to recover the cost in the subsequent year rates.
- However, if the federally calculated deficit is planned (internal rates were set below calculated cost), the subsequent year expenses should not be adjusted upward to recover the cost, as this represents a subsidy. A planned deficit must be approved by the appropriate budgetary authority during the annual budget process, and cleared from the fund balance of the unique account through a fund balance transfer (using expenditure type 351101), at the end of each fiscal year.

These adjustments to the current accumulated costs of each good or service (described in Section B. above) will result in the current recoverable costs of an ISP for that good or service.

C. Estimate Future Recoverable Costs and Usage

The rate calculation consists of a future recoverable cost component which is calculated by reviewing current recoverable costs of providing the service from the most recent closed fiscal year (discussed in Section B. above), annualizing current recoverable costs to date, increasing those costs for inflation and adjusting for any other known variables.

The rate calculation also includes a component for total estimated future usage. Estimated future usage should be the usage expected in the fiscal year in which the rate will be charged (in the example in Section D. below, it would be usage for FY09). Typical units of measure for usage are hours of machine time, hours of labor, number of users, pounds or liters. It is important to recognize

that usage represents the number of units expected to be used in the year, not the highest potential output of the ISP. The estimated usage need not assume full capacity of operation, but rather should be a real estimate of expected usage. Overestimating usage will result in a deficit and underestimating will result in a surplus. The expected usage must include both internal and external users, regardless of the price charged. All usage should be part of the denominator even if there was no charge for the service (see Section D. below for treatment of discounts).

D. Rate Calculation and Timing

To calculate the sponsored rate for a service, divide the estimated recoverable costs by the estimated future usage (both discussed in Section C. above). Rates cannot be based solely on “the market” or an “historical” rate.

Rates charged to internal sponsored customers can be less than or equal to calculated rates, but never greater than the calculated rates. Rates may differ between internal customers, but one internal customer cannot subsidize the cost of providing the same good and/or service to another internal customer, so discounts must be recorded as described in [Procedure 1410 PR.03 Internal Service Providers: Accounting and Billing](#).

Recharge Center rate calculations must be performed annually subsequent to each fiscal year close, but prior to the next year close, and before they are charged to customers. These calculations must be sent to GCFA for review upon completion. The rate calculated would then be used for billing in the subsequent fiscal year. For example, FY09 rates would be calculated during FY08, using final (or near final) expenses for FY07. The rates must be calculated and included as part of the annual departmental budget process, since they will affect the budgeting process.

The rates of all SSFs (defined in [Policy 1410: Internal Service Providers](#)) must be reviewed and approved annually by GCFA prior to finalizing the subsequent fiscal year budget. The rates with supporting calculations must be sent to GCFA during the ISP's budget process, to ensure time for review prior to finalizing their rates.

Since rate calculations are performed in advance of the fiscal year in which they are charged, and are based on estimated costs and usage, if there are significant changes to any of the estimates used to calculate the rates, rate adjustments will be allowed, as needed. The adjustments must be documented and approved by GCFA.

A [Rate Calculation Form](#) has been developed, along with [Form 1410 FR.14 Instructions](#) to assist with its use. Using this form is optional, but a documented methodology must exist to support the rates charged. If a different format is used, it should be similar in content to the form.

2. Non-Sponsored and External User Rates

ISPs may consider charging internal non-sponsored and external users (defined in [Policy 1410: Internal Service Providers](#)) a charge above the calculated sponsored rate (a surcharge, for internal non-sponsored customers; or a premium, for external customers). A surcharge is a charge to internal non-sponsored customers, above the sponsored rate, which recovers a pro-rated portion of federally unallowable costs. A premium is a charge to external customers in excess of the sponsored rate. These increased rates will allow the ISP to recover costs that are incurred, but not recoverable under federal regulations.

In addition to the non-sponsored internal rates, for external customers, an amount equal to the current Facilities & Administrative rate may also be added. This will ensure that external users pay University overhead that internal users pay when a direct charge is billed to their award.

Having different rates for internal non-sponsored and external users is optional.

3. Record Retention

Each ISP must maintain a rate schedule for all rates charged annually with documents to support the calculated rate. These records should be retained in compliance with Policy [1105 Retention of University Financial Records](#). ISPs should note that sponsored awards may last 10 or more years, and therefore should consult GCFA before any records are discarded.

Related Information

[Policy 1410](#): Internal Service Providers

[Policy 1105](#) Retention of University Financial Records

[Procedure 1410 PR.01](#) Internal Service Providers: Registration and Annual Renewal

[Procedure 1410 PR.03](#) Internal Service Providers: Accounting and Billing

Procedure [1305 PR.04](#) Unallowable Costs

[Procedure 1350 PR.01](#) Human Embryonic Stem Cell Research

Contacts

| Subject | Contact | Contact Information |
|--------------------------------------|---|---------------------|
| Requesting Unique Accounts | General Accounting | ga.gl@yale.edu |
| Rate Calculation and Allowable Costs | Grant and Contract Financial Administration | isp@yale.edu |

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