

Recharge/Service Center Updates

Spring 2016 Auxiliary Forum

John Sparks, Cost Accounting Manager

June 16, 2016



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Recharge/Service Center Activity

An activity that:

- Furnishes goods or services to another Indiana University department for the convenience of the university, and
- Charges a fee directly related to, and not more than, the allowable cost to provide the goods or services

IU Policy **I-400 – Recharge and Service Center Activity** governs any internal transaction that records income to one university account and expense to another.



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Annual Internal Billings	Number of Accounts	% Accounts	Total IB, SB, & ID Billed	% of total Billed	C&G billed	% of C&G Billed
Equal/Greater than \$5 M	8	1%	\$79,655,292	38%	\$6,374,681	28%
Less \$5M & Equal/Greater \$500 K, Plus Fed Over \$100K	74	9%	\$103,581,968	49%	\$8,951,507	39%
Equal/Greater \$100 K & Less<\$500 K	97	12%	\$20,803,337	10%	\$5,440,895	24%
Less \$100k	615	77%	\$8,094,317	4%	\$2,200,180	10%
Totals	794	100%	\$212,134,914	100%	\$22,967,263	100%



Compliance Criteria

- Must use dedicated recharge/service center (66*) account
- Billing rates recover no more than allowable and allocable cost
- Residual fund balance will carry forward to adjust rates in future periods
- Proposed rates must be submitted to FMS on at least a biennial basis
- Rates must reconcile to KFS financial statement



Compliance Criteria (continued)

- Internal billing rates cannot exceed rates for the same good or service charged to external customers

- Depreciation recovery in rates billed (RSOP 3.0)
 - ✓ Only recover depreciation expense in proportion to center's usage of asset
 - ✓ Cannot include depreciation of assets purchased with sponsored project funds

- Must adhere to applicable federal standards, including but not limited to, OMB Uniform Guidance, agency requirements, University Cost Accounting standards and university policies



Facilities and Administration (F&A) Rate

- Rate at which the federal government reimburses contract and grant recipients for indirect costs associated with a sponsored project
- Current F&A rate is 56% of direct cost
- Effective July 1, 2017, the F&A rate will increase to 57.5%

In FY 2015, ~\$83 million was received in indirect cost reimbursements



F&A Allocation and Recharge/Service Center Activity Must Work Together!

- **IF**...the F&A cost is included in recharge/service center rates billed to other IU accounts,
- **THEN**...the same cost may be billed to the federal contract and grants account as both a direct cost and an F&A (indirect) cost

- **IF**...costs that are **limited or not allowed** by federal policy or regulation are included in the recharge/service center rate billed,
- **THEN**...rates billed will be questioned by auditors



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Recharge Standard
Operating Procedures



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Operating Procedures](#)**

Standard Operating Procedure documentation for Cost Accounting

Rate Template &
Instructions



[FAQs](#)

Questions and answers for a variety of topics related to Cost Accounting

FAQs

Policies



**[Rate Template &
Instructions](#)**

Reference materials including instructions, templates, and other documentation

Reference Information



[Policies](#)

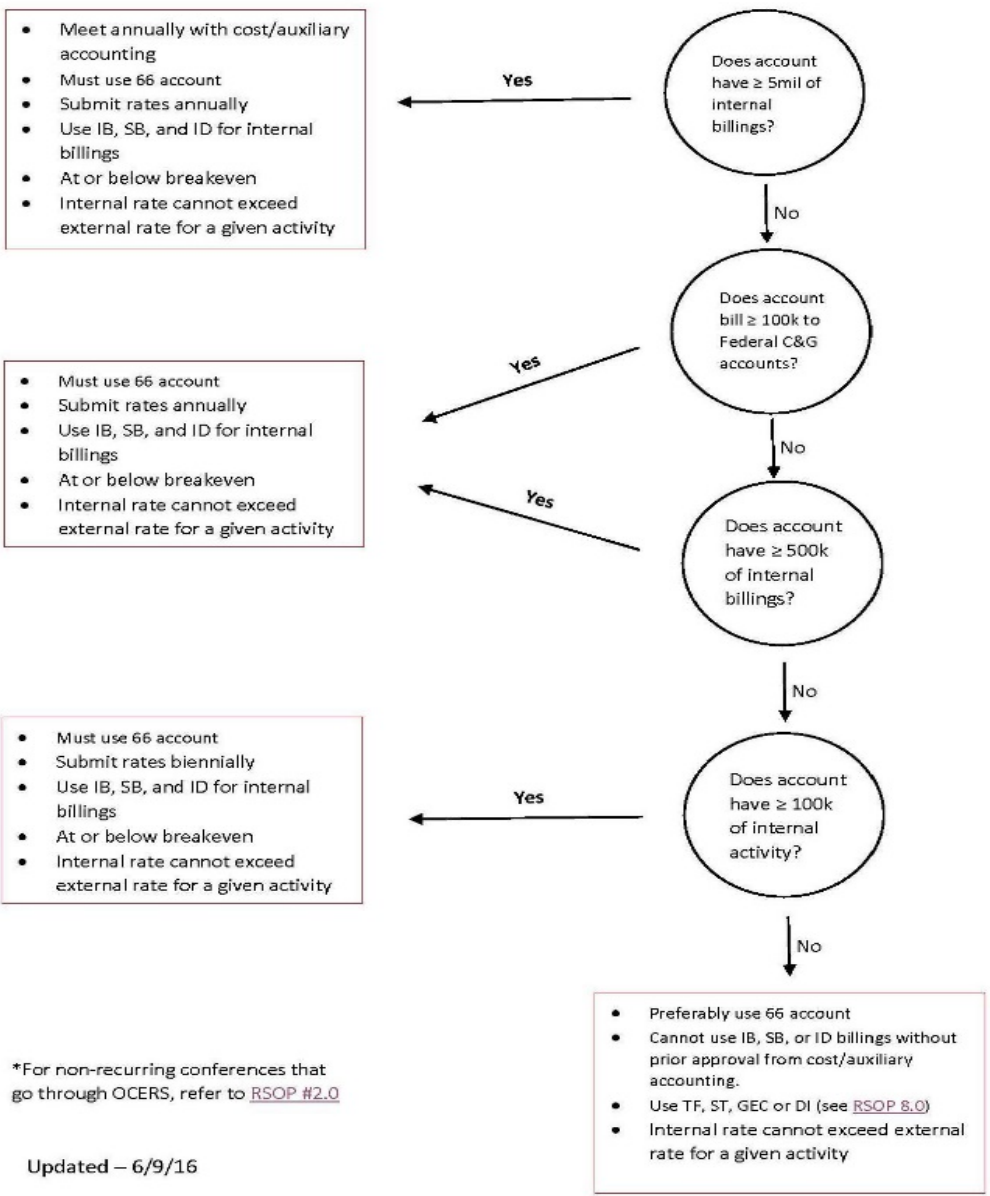
Policies relevant to Cost Accounting



[Reference Information](#)

Includes supplementary information regarding cost accounting and rate-setting

Reporting Requirements for Accounts with Internal Activity



*For non-recurring conferences that go through OCERS, refer to [RSOP #2.0](#)

Updated – 6/9/16





Current Recharge Standard Operating Procedures (RSOP)

- **RSOP 1.0:** Definition of a Recharge/Service Activity
- **RSOP 2.0:** Reporting Requirements for Recharge/Service Centers
- **RSOP 3.0:** Including Annual Depreciation Expense in Recoverable Rate
- **RSOP 4.0:** Recharge/Service Center Capital Purchases
- **RSOP 5.0:** Allocating Cost to Internal Activity
- **RSOP 6.0:** Allowable/Unallowable Expenses for Recharge/Service Centers
- **RSOP 7.0:** Recharge/Service Center Transfers
- **RSOP 8.0:** Internal Activity in Accounts under \$100k



RSOP 4.0 – Recharge/Service Center Capital Purchases

- Capital purchases should not be funded by a recharge/service center
- Depreciation for non-federally funded assets can be recovered in the recharge/service center rate
- Amount equal to current year depreciation should be transferred to R&R (92) account to fund future capital purchases



RSOP 5.0 – Allocating Cost to Internal Activity

- External and internal activity co-mingled in the same account must be separated into 60 (external) and 66 (internal) accounts
- Costs shared by both external and recharge/service activity must be allocated based on benefit received or other equitable or logical association
- Allocation methods must be substantiated in case of audit



RSOP 6.0 – Allowable/Unallowable Expenses for Recharge/Service Centers

Allowable Costs must be:

- Reasonable and necessary to provide the good/service
- Comply with Uniform Guidance, cost standards established by federal agencies, and university policies and procedures
- Accorded consistent treatment in like circumstances
- Not included as cost or used to meet cost sharing or matching requirements of federally financed program
- Not included in F&A rate calculation
- Supported by adequate documentation that cost was incurred

A list of common unallowable expenses can be found on the FMS Cost Website under “Reference Information”



RSOP 7.0 – Recharge/Service Center Transfers

- Subsidies are allowed as a transfer in to a recharge/service center; however, the 66 account fund balance must remain at breakeven
- Transfers out of a 66 account are not allowed, with the exception of annual depreciation expense to an R&R (92) account



RSOP 8.0 – Processing Internal Transactions for Accounts Under \$100k

Internal Billings, Service Billings and ID Billings are not allowed; instead, allowable cost should be moved with:

- Transfer of Funds
- Salary Transfer
- Distribution of Income/Expense
- General Error Correction – this should be used for moving costs to C&G accounts



Template & Instructions Updates

- **FMS Only Tab** – no need to complete but gives you an idea of what will be reviewed
- **Variance Analysis** – explanations need to be provided for variances greater than 5% of total recoverable cost



Process for Submitting a Rate

- If the 66 account is within a Reporting Auxiliary Organization, submit the rate to Auxiliary Accounting at auxacct@iu.edu
- All other rates should be submitted to FMS Cost Accounting – jvsparks@iu.edu or rsaraswa@iu.edu
- Each campus or RC may specify additional levels of review prior to submitting to Auxiliary Accounting or Cost
- Once rate is received by Auxiliary or Cost, it can take up to one month to get finalized



Future Workshops

- Provides hands-on opportunity to work through your rate with someone from Auxiliary or Cost
- Will likely have sessions in Bloomington and Indianapolis in September
- If you would like a one-on-one meeting, please send an email to auxacct@iu.edu

Document, Chart & Misc. Updates

Spring 2016 Auxiliary Forum

Jennifer George

June 16, 2016



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Background Information

- **Cost Accounting Risk**
 - Increased volume in recharge center activity.
 - Change in the audit approach: Auditors are now asking for all transactions from a funding source (i.e., NIH) for multiple years. Once they have a complete list of transactions they will then “sample” for specific items such as timing of payments, transaction amounts that appear to be rounded, large dollar transactions in the last 30 days of the grant.

- **Consolidated Financial Statements**
 - We are no longer able to justify to our external auditors our internal financial transactions. The primary reason for this is that all document types are being used for multiple purposes.



Internal Billing, Service Billing and ID Billing

- Purpose of the Internal Billing (IB), Service Billing (SB) and ID Billing
 - Intended Purpose: To record income & Expense for any billings of goods or services between university accounts except for accounts with sales & services less than \$100K in annual activity.
 - Exception: In multiple instances the SB document is also being used as Distribution of Income & Expense (DI). Until we are able to create a DI process that does not route to other KFS users for approval, this scenario will be able to continue on the SB document.
- Accounts with internal activity under \$100K will NOT be permitted to use IB, SB or ID Billings without prior approval from cost accounting.



Primary Differences Between IB, SB and ID Billing

- The primary differences between the IB, SB and ID Billing documents are the routing and eDoc generation. The chart below outlines the differences.

	Routing to Other KFS Users	eDoc Generated
Internal Billing	Yes	Yes
Service Billing	No*	Yes
ID Billing	No*	No

**These documents do not route for approval or FYI.*

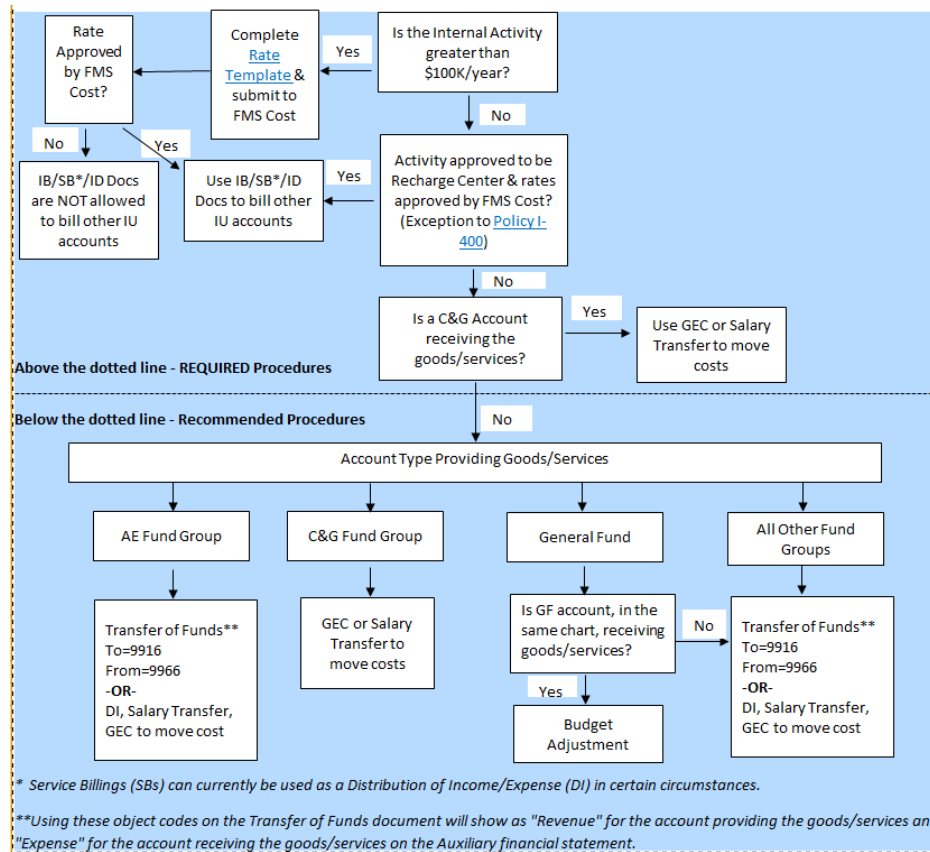


Internal Billing Document Technical Updates in Fiscal Year 2017

- Account Restrictions
 - The account that is listed on the income side of the document will be required to be a recharge center (66) account or a program income (55) account.
- Object Code Restrictions
 - The user will be required to enter an income object code on the income side of the document.
 - The user will be required to enter an expense object code on the expense side of the document.
 - Asset, liability and transfer codes will not be permitted on the internal billing document.
 - If a department needs to use a “clearing object code”, please use object code 1804 (income clearing). Use of this object code will eliminate external reporting issues and allows the charges that need to be moved to another object code to be isolated.
 - [ASOP #22: Income Clearing Object Code 1804](#)



Providing Goods/Services to Other IU Accounts





Transfer of Funds Document

- Purpose: The Transfer of Funds (TF) document is used to record the movement of cash between accounts.
- The treatment of transfer object codes on the Consolidated Financial Statements and internal auxiliary reporting are different.
 - Transactions initiated on a TF document are eliminated for the Consolidated University Financial Statements.
 - For internal auxiliary reporting purposes, the transactions initiated on a TF document are typically netted and displayed in the “Net Transfer” line of the auxiliary balance sheet in the “Fund Balance” section. However, certain transfer object codes are shown on the auxiliary income statement because the activity that prompted the transfer represents revenue or expense to the auxiliary/service unit.



Object Code Usage on Transfer of Funds Document

- Please refer to Summary of Transfer Object Codes (in the Reference Section of the Auxiliary Website) for a complete listing of where each transfer object code will be reported on the auxiliary financial statements and common usage.
- New object codes
 - 9916 - Transfer In Revenue: This object code is for recording of 'revenue' for the sale of goods or services- typically used when the activity is less than \$100K/year
 - 9966 - Transfer Out: Expense: This object code is for recording of 'expense' for the sale of goods or services- typically used when the activity is less than \$100K/year
- Disadvantage of Transfer Object Codes for Internal Reporting Purposes



Distribution of Income & Expense Document

- The Distribution of Income and Expense (DI) document allows for the reallocation of income or expense.

Object Code Category From Side	Object Code Category To Side
Asset	Asset
Expense	Expense
Income	Income
Liability	Liability

- It should never reflect income to one department and expense to another department. That would be a sale of a good or service and the Internal Billing, Service Billing, or ID Billing document should be used.



General Error Correction Document

- The General Error Correction (GEC) document is used to correct inappropriate or incorrect account numbers or sub-account numbers and object codes or sub-object codes in the general ledger. When it is possible, reference the specific document number of the transaction(s) being corrected. Office of Research Administration (ORA) always prefers use of the GEC.
- In the absence of a general accounting document that has a generated offset to cash, the GEC can also be used to fulfill adjusting entries.



How frequently do I need to do billings?

- *Customers, both internal and external, should be invoiced immediately after the good or service has been provided and no later than the end of the quarter in which the good or service was provided. If a job takes place over a period of time, progress billings should be done based on the percent of project completion.*

Variance Analysis & Balance Sheet Backup Refresher

Spring 2016 Auxiliary Forum

Kathy Cochard, Auxiliary Accounting Manager

June 2016



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Requirements

Reporting Auxiliaries:

- Auxiliary or Service Center organizations earning more than \$750k in revenue in the prior fiscal year
- Variance Analysis must be submitted **quarterly**
- Balance Sheet Backup must be submitted **annually**

Non-Reporting Auxiliaries (\$250k-\$749k in prior FY) :

- Variance Analysis must be submitted **annually**
- Balance Sheet Backup must be submitted **annually**

Non-Reporting Auxiliaries (less than \$250k in prior FY):

- Variance Analysis and Balance Sheet Backup do not need to be submitted



Variance Analysis

- Definition - a tool used to explain significant variances in the financial statements of auxiliary units.
- ASOP 17.0 – provides detailed information and examples for the Variance Analysis
- IUIE PDQ Generator highlights variances that need explained

Detailed instructions for running the PDQ generator can be found on the Auxiliary Accounting website under “Reference Information”.



Variance Analysis

Balance Sheet:

- Variances to prior year greater than 30% and \$10,000 at the object level (green highlight on PDQ Generator)
- Negative object code balances (red highlight on PDQ Generator)
- Unchanged (stale) object code balance (blue highlight on PDQ Generator)

Income Statement:

- Materiality threshold is 10% of total revenue (minimum of \$25k and maximum of \$500k)
- Variances to budget and prior year at object level (green highlight on PDQ Generator)

**Auxiliary Accounting may ask about other variances that are not highlighted*



Variance Analysis - Examples

Accounts Receivable

Actual	Prior Year	Variance
\$400,000	\$325,000	\$75,000

Explanation - In the fiscal year, we began doing business with ABC Company. On 06/30, this company had a \$63,500 invoice outstanding.

Accounts Payable

Actual	Prior Year	Variance
\$250,000	\$500,000	(\$250,000)

Explanation – We purchased a \$200,000 machine in May FYXX, the invoice for which was not paid until FYXX.

Sales and Services

Actual	Prior Year	Variance
\$50,000	\$40,000	\$10,000

Explanation – X%increase in occupancy across campus in room & board. Increase in meal plan rates of x%.

Supplies and Expense

Actual	Prior Year	Variance
\$2,500,000	\$3,000,000	(\$500,000)

Explanation – Received unexpected discounts of 15% on supplies purchased for X program.



Balance Sheet Backup

- Definition – detailed documentation or workpapers substantiating the non-system generated balance sheet amounts
- Supporting documentation used to create Auxiliary Vouchers could serve as balance sheet backup. Listing of Auxiliary Vouchers does **NOT** constitute balance sheet backup.
- ASOP 44.0 – provides detailed information and examples for balance sheet backup
- The “Balance Sheet Backup Template” on the Auxiliary website (under “Reference Information”) also provides examples of BSB for common object codes



Balance Sheet Backup –Common System-Generated Object Codes

- 8000 – Cash
- 8118 – KFS Accounts Receivable – Non-Student
- 8160 – Bursar Accounts Receivable
- 86**, 89** - Capital items and related depreciation (89xx for allowances are NOT system generated and require substantiation)
- 9041, 9042 – Accounts Payable
- 9050 – Accrued Payroll
- 9056, 9058 – Accrued Vacation & Sick Liabilities
- 92** - Bond Payable level
- 96** - Notes Payable – Capital Lease
- 98** - Fund Balances



Balance Sheet Backup Example – Inventory

Detailed listing of all items in inventory as of 6/30/XX; should include:

- * Description of items
- * Quantity
- * Cost

Valuation Date:	06/30/20XX			
8300 Balance as of June 30th		\$ 3,264.21		
Part Number	Part Description	On Hand	Avg. Cost	Value
D0172630	Item 1	32.97	\$10.00	\$329.70
D0101000	Item 2	1.00	10.39	10.39
D0110000	Item 3	0.00	115.00	0.00
D0110003	Item 4	7.00	6.38	44.66
D0110004	Item 5	143.00	7.60	1,086.80
D0113200	Item 6	37.00	2.23	82.51
D0115000	Item 7	255.00	1.95	497.25
D0115001	Item 8	3.00	1.95	5.85
D0115002	Item 9	332.00	1.95	647.40
D0115003	Item 10	287.00	1.95	<u>559.65</u>
Inventory value per physical count 6/30/XX				\$3,264.21



Balance Sheet Backup Example – Accounts Receivable

Detailed listing of all items comprising AR balance as of 6/30/XX; should include:

- * Customer Name
- * Invoice number & date
- * Amount due
- * Prefer amounts to be in “aging buckets”

<u>Customer Name</u>	<u>Amount</u>	<u>Invoice #</u>	<u>Current</u>	<u>1-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>Over 91 days</u>	<u>Total</u>
Jones	\$15,000	AB123	\$1,000	\$2,000	\$4,000	\$1,000	\$7,000	\$15,000
Smith	\$2,000	CC899	\$500			\$1,500		\$2,000
Brown	\$13,000	FB778	\$10,000		\$1,100	\$1,900		\$13,000
Williams	\$5,000	OU156	\$250	\$4,750				\$5,000
Green	\$15,000	SC462	\$5,000	\$3,000	\$1,000		\$6,000	\$15,000
	\$50,000		\$16,750	\$9,750	\$6,100	\$4,400	\$13,000	\$50,000



Excel File Naming Convention

When sending Excel files to Auxiliary Accounting be sure to include chart-organization, fiscal year and quarter, type of report (VA or BSB)

Examples:

- BA-CARD Q4 FY2016 VA
- IA-PARK Q4 FY2016 BSB
- SB-HOUS Q4 FY2016 VA BSB
- UA-REAL Q4 FY2016 BSB OC 9000



Year End Calendar

- Monday, 7/18/16 – June Auxiliary Voucher Cutoff
- Monday, 7/25/16 – Final closing
- Monday, 8/1/16 – VA and BSB due to Auxiliary Accounting
- Different departments/campuses may have earlier deadlines for AV cutoff and VA/BSB submission



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Auxiliary Accounting



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Mission, Roles, and Responsibilities of Auxiliary Accounting. Also contains sign-up for Auxiliary mailing list.



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Contact information for Auxiliary Accounting staff and Campus Administrators



[Auxiliary Standard Operating Procedures](#)

Standard Operating Procedure documentation for Auxiliary Accounting



[Calendar](#)

Calendar of important dates for January - December 2015



[FAQs](#)

Questions and answers for a variety of topics related to auxiliary units



[IUIE Reports](#)

Links and descriptions for commonly used reports by auxiliary units



[Reference Information](#)

Reference materials including instructions, templates, and other documentation



[Cost Accounting Website](#)

Link to the FMS Cost Accounting Website



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