

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW
OF
RECHARGE CENTERS AT
THE UNIVERSITY OF UTAH**



JUNE GIBBS BROWN
Inspector General

SEPTEMBER 1995
CIN: A-08-95-00907



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

CIN: A-08-95-00907
September 6, 1995

Mr. Thomas J. Nycum
Vice President for Administrative Services
209 Park Building
University of Utah
Salt Lake City, Utah 84112

Dear Mr. Nycum:

This report provides you with the results of our *Review of Recharge Centers* at the University of Utah (University), Salt Lake City, Utah. 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, Cost Principles for Educational Institutions.

The University did not ensure that recharge centers periodically adjusted billing rates to attempt break-even over a long-term period. Also, the recharge centers improperly recovered equipment costs. 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 (FY) 1993, the University had about 25,000 students and received Federal funds for sponsored agreements of about \$123 million. The University defined recharge centers as units which provide goods and services to several University departments. Also, the Board of Regents must approve the designation of a unit as a recharge center. During the review period, the University operated 12 recharge centers. In FY 1993, the recharge centers had revenues of about \$22,700,000 and charges to Federal projects of about \$500,000.

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 attempt break-even,
- 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 three recharge centers for review: Mailing Bureau, Stores and Receiving, and Telecommunications. 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 in January 1995.

RESULTS OF REVIEW

Billing Rates

The University had not periodically adjusted recharge center billing rates to eliminate operation surpluses and deficits. Telecommunications, and Stores and Receiving had a net income from operations each year. In contrast, the Mailing Bureau had net losses from operations each year. The net income/(loss) from operations were: ↓

FISCAL YEAR	TELE-COMMUNICATIONS	STORES AND RECEIVING	MAILING BUREAU
1991	\$1,665,581	\$ 13,774	\$(62,305)
1992	1,117,725	53,071	(37,477)
1993	1,026,459	46,045	(29,156)
TOTALS	\$3,809,765	\$112,890	\$(129,938)

The OMB Circular A-21, Section J., provides that universities are not allowed to recover more than the aggregate costs for 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.

The recharge centers had not made cost studies to ensure that billing rates approximated costs for individual services. Consequently, the recharge centers may have had consistent gains or losses which resulted in over/under charges for services provided to users.

The University has taken some steps to correct this control deficiency. The Mailing Bureau recharge center had contracted with a consultant to develop an automated system which would identify costs of providing services to users. Also, the Telecommunications recharge center reduced its billing rates for FY 1994 as a result of recommendations made by the Utah Office of the State Auditor in the single audit report.

Equipment Costs

The recharge centers transferred funds in FY 1993 (Mailing Bureau - \$63,750, Stores and Receiving - \$17,000, and Telecommunications - \$1,347,000) from operating to reserve accounts to cover the costs of new equipment. These transfers for equipment purchases were not based on equipment depreciation schedules maintained for the recharge center operations (Mailing Bureau - \$14,999, Stores and Receiving - \$34,358, and Telecommunications - \$446,489).

The OMB Circular A-21, Section J.12, provides that universities shall recover equipment costs based on depreciation or use allowance. The Circular, Section J.16, defines equipment as tangible personal property with a useful life over 2 years and an acquisition cost of \$500 or more.

The transfers occurred because the University used fund accounting, which does not require the reporting or recording of depreciation. A University official stated that the transfers and related reserve accounts were necessary to cover equipment costs which significantly exceed historical costs because of expansion of operations.

The transfers to the reserve fund were included in the recharge center fund balances. Since the fund balances affected the billing rates, the recharge centers may have improperly charged users. As of the end of FY 1993, we noted that the 12 recharge centers had reserve account balances totaling over \$2 million (over \$1 million in the three recharge centers reviewed).

Recommendations

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

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

Auditee Response

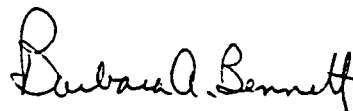
The University agreed with our report recommendations.

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

Enclosure

HHS Action Official
Mr. David S. Low, Director
Division of Cost Allocation
50 United Nations Plaza
San Francisco, CA 94102



Office of the Vice President
for Administrative Services

August 25, 1995

Barbara A. Bennett
Regional Inspector General of Audit Services
Department of Health and Human Services
601 East 12th Street, Room 284A
Kansas City, Missouri 64106

Re: CIN: A-08-95-00907

Dear Ms. Bennett:

Thank you for the opportunity to respond to the draft report of the Review of Recharge Centers at the University of Utah.

DHHS, OFFICE OF THE INSPECTOR GENERAL (OIG) REVIEW RECOMMENDATION:

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

1. Monitoring of fund balances and billing rates,
2. Periodic rate studies supported by current cost data,
3. Adjustment of the billing rates to eliminate surplus or deficit fund balances, and
4. Recovery of capital equipment costs through depreciation.

UNIVERSITY OF UTAH RESPONSE:

- *Based on our review of the audit report, the University is in the process of revising its policies and procedures related to recharge (service) centers in order to address each of the issues noted in the recommendation. The revisions are not only intended to address the issues raised in the audit report, but to also strengthen our current policies and procedures. The University will submit the revised recharge (service) center policies and procedures to your office as soon as they are completed and it is our intention to implement on July 1, 1996 for the Fiscal Year ending 1997.*

We appreciate the professional manner in which the review was conducted and look forward to working with you in the future. If you have any questions, please contact either Barbara Nielsen at (801) 581-5989 or Ron Tremea at (801) 581-7520.

Sincerely,

Arnold B. Combe
Assistant Vice President

ABC/am

Assistant Vice President
Financial and Accounting Services

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