

PHS Research Management Policy on Research Core/Recharge Cost Centers

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Rationale:

The purpose of this policy is to provide a framework and guidelines for the fiscal and administrative operations of Partners Healthcare System research-related recharge centers and research core-facilities that will:

1. Allow investigators, administrative staff and researchers to budget for and monitor recharge center expenses and revenue;
2. Allow for more consistent administrative and accounting practices across PHS entities involved in sponsored research;
3. Ensure compliance with federal regulations.

Background:

Recipients of federal research funds must comply with regulations pertaining to the operation of recharge centers. These requirements are set forth in several federal regulatory documents including OASC-3 Cost Principles for Hospitals; Code of Federal Regulations (CFR) 45, part 74, Appendix E; OMB Circular A110; as well as financial and grant management standards included and described in the NIH Grants Policy Statement. Recharge centers have been a recurring focus area in federal audits of grantee organizations.

General Definitions:

Recharge centers, sometimes referred to as “specialized service facilities”, or “core-facilities” are essentially PHS units/cost centers that are organized to provide services to users and to facilitate research activity by efficiently providing a vehicle for charging back the cost of the services to other entity users, typically through other sponsored projects such as grants or contracts as “user fees”. Generally “core-facilities” provide scientific services and resources, use of state-of-the-art equipment and/or technology to the research community. Services are sometimes provided to external (outside) users. Operating expenses are charged to the recharge center fund and then reimbursed through a "recharge" back to the cost center/fund receiving the services. These centers may be based within the entity institution or department.

Several types of recharge centers exist at Partners: Institutional (institutionally based cores e.g. Center for Clinical Investigation, HPCGG Cores, NMR), Departmental (departmentally based cores e.g. DNA Sequencing, Bioinformatics, Protein Synthesis), Animal Facility , Administrative, Sponsor Supported Cores (e.g. Cancer Center, P30s).

General Definitions (Continued):

Recharge centers or institutional core-facilities typically have the following characteristics:

- Involve the use of highly complex facilities and state-of-the-art equipment.
- Have been given some institutional funding to meet a critical research need across multiple disciplines.
- Offer a unique cluster of expertise offering technical and/or scientific services and cutting edge technology not generally served by the commercial sector.
- Are not dedicated to the work of a single research group or department and services and are distinguishable from the same activity that is conducted by the sponsoring department.
- Have a significant annual activity defined as over \$500k of total charges.
- Maintain “equitable” access to all investigators and are open for “new business”.
- May use the “full cost” methodology to develop rates/user-fees but more commonly will utilize the “direct cost” methodology.
- Must remain current with technological advances and avoid duplication of existing services.
- All costs associated with running the core service are charged back through user fees. The user fees for all services are based upon an analysis of allocated consumable supplies, materials, labor and other related operating expenses and should be based on the actual costs to perform the services.
- Must be self-sustaining and be revenue neutral.
- Do not generate a significant surplus in excess of operating expenses. Any excess funds generated should be used to lower user fees and enhance services.
- Institutional cores require scientific and managing directors who are actively involved and are able to interact with researchers and lab staff across a range of disciplines.
- Adequate oversight and ongoing feedback are required through pre-established Scientific Management Committees.
- Training and education can be defined as part of the mission of the core services. However training must be charted to an appropriate source. The core should not assume the financial responsibility for training.

- *Departmental Recharge Centers, or Departmental Cores, typically share many of the characteristics mentioned above but specifically:*
- Provide preferential access to investigators within the department although some provide limited services to “external users”.
- Base user-fees or prices only on the “direct cost” of the service.

Sponsor Supported Cores are sponsor-specific and typically:

- Access is generally limited only to internal investigators within that “center” or those affiliated with the support grant.
- The sponsor can subsidize user-fees which may be lower than the actual “direct cost” of the service.

Administrative Cores typically:

- Provide a central administrative or other service to a group of users, usually within the same department. This type of centralized resource may be reimbursed for core services by assessing a percent or user-fee on users’ grants to cover expenses.

There are two basic cost methodologies used for developing recharge center rates or user-fees: “*full cost*” which includes all allocable direct and indirect costs in the price of a service; and “*direct cost*” which includes only the allocable direct costs in the price. When the “full cost” method is used (typically only with large, institutionally based recharge centers or animal facilities), charges to internal and external users’ grants for services are excluded from the MTDC (modified total direct cost) base and thus are not charged indirect costs. When the more common “direct cost” method is used, charges to users grants are included in the MTDC base and overhead is therefore assessed to the user’s grant at the applicable rate. The appropriate cost methodology used to assess the recharge center rate will be reviewed and approved by PHS Research Management.

Federal Standards for Charges:

1. The federal government stipulates that the cost of these services should be charged directly to users, including sponsored grants and contracts.
2. Charges should be based on actual usage and a schedule of rates that does not discriminate between federally and non-federally supported activities of the institution.
3. Charges should be designed to recover no more than the actual cost of the service over a long-term period (for example, one year).
4. Government users should never be charged more than actual cost and charges must be based on costs that are allowable, allocable, and reasonable.

PHS Research Management Recharge Center/Research Core Policy

PHS Guidelines:

1. Services provided must be consistent with the mission of the PHS entity and the core.
2. Services must be unique and/or not widely available commercially from outside sources.
3. Prices must be reasonable and competitive when compared with other institutions and commercial companies offering similar services.
4. All costs for providing the service must be off-set with the revenue received for providing the service. (Auditors may question large surplus balances on recharge funds. This could indicate that costs are being charged to sponsored agreements and the income is being deposited to the recharge fund. In this case, prices may need to be re-evaluated and adjusted in order to reflect actual costs).
5. Centers are expected to be "revenue neutral" with smaller surplus (profit) or deficit (loss) variances that are < 25% of annual operating expenses being reviewed at year-end for appropriate matching of costs and revenue. These will be adjusted when necessary with moderate price increases or decreases "going forward" into the next period. More significant deficit variances, defined as > 25% of annual operating expenses, will be resolved each year by either transferring the deficit to an appropriate discretionary or departmental fund and/or by crediting the profits or charging the losses to the actual users. This would be reviewed on a case-by-case basis as in certain circumstances there may be a need to develop a surplus in order to replace or upgrade equipment. In general, any excess funds generated should be used to maintain/upgrade the facility, develop new technology necessary to stay current and/or lower user-fees.
6. A review of each recharge cost center should be done at least annually, (e.g. prior to fiscal year-end close) so that significant variances can be addressed and resolved and not allowed to grow from year to year.
7. Recharge center costs typically include direct operating costs such as direct labor (salary and fringe of technicians and staff), operating supplies and materials, and other expenses such as service contracts or equipment leases. Capital equipment depreciation (or capitalized lease costs) may also be included in rates in certain cases however these costs must be reviewed and approved by PHS Research Management contact person. However, depreciation on federally purchased (or shared) equipment is not included. Food/meal expenses should not be charged to the recharge center and should be applied to an unrestricted sundry fund.
8. Some centers may provide services to both "internal" users (entity specific users) and "external" users (e.g. PI's whose labs and grants are at non-PHS organizations such as

Harvard, DFCI, MIT, etc).

PHS Guidelines: (Continued)

9. Typically the costs associated with running the center are provided through user-fees. Some institutional support for portions of the operation may be provided if it is felt that the service is sufficiently vital to the strength of the overall research community and portfolio. User-fees must be based on the actual direct costs required to perform the service(s) (exclusive of accumulated inventory and unallowable expenses). In certain circumstances, some institutional cores will be costed out utilizing the “full cost” methodology which includes both “direct” and “indirect” costs in setting user-fees. This determination will be made by Partners Research Management. The “user-fees” and services provided should be made readily available to users (e.g. on the center's web site or brochure). The user-fees must be consistently applied across users regardless of sponsor. All Cores are expected to assess institutional overhead to all "External" Users. Any services provided to "External" users will incur a full overhead rate applied to the internal user-fee rates based on the institutional research overhead rate (currently 75%). Any exceptions to this policy must be approved in writing by the Institutional Senior Vice President (Barbara Bierer, M.D. or Richard Bringhurst, M.D.). The direct cost portion of the payment for Core services from "External" users will be credited to the Core Fund. The overhead portion will be deposited to the Hospital Overhead Fund. Please see # 2, under Charging/Payment Recording Procedures.
10. Accumulated surpluses resulting from charges to internal users cannot be transferred out of the center to another fund. They should be used to reduce “user fees” in next period.
11. PHS Research Management is responsible for approving requests to establish new centers, and works with the Director(s) and Administrator/Business Manager(s) to monitor fund balances on a regular basis, resolve problems and ensure compliance with applicable sponsor and PHS policies. Financial data related to the recharge center/core including operating expenses and revenues will be provided upon request to PHS Research Management.

Establishing New Recharge Centers:

1. Requests to open or operate new departmentally-based recharge centers or cores are approved by the chair of the department and the PI of the grant program (in cases of centers associated with specific sponsored projects) in which it will be based and sent to the contact person in PHS Research Management. Requests to open institutionally based centers (e.g. requested by ECOR at MGH or BRI at BWH) are approved by the appropriate VP for Research (or designee). A business plan is required and needs to be submitted to the Director for Core Facility Operations and Business Planning prior to the establishment of a new fund. Guidelines on the business plan can be obtained by calling the Core Facility Operations and Business Planning Director for MGH at 617-954-9308 and for BWH at 617-954-9610.

2. An appropriate departmental (or institutional) cost center or fund must be identified by the requesting department and documented as a back -up or "guarantee" fund to cover any un-resolvable fund deficits that may arise from the operation of the center.
3. All recharge cost centers must be uniquely identified with an activity code of "02" in Peoplesoft so they can be easily identified in the PHS ledger and Management Reports. Recharge centers using the "direct cost" methodology should be set up at a 0% overhead rate.
4. All core-facility expenses including personnel, supplies and equipment purchased as well as income generated from user-fees must reside in the same core-facility fund.
5. Each center must designate a responsible Scientific/Operations Director or PI and an Administrator or Business Manager responsible for the efficient successful operation of the center. The Director and/or Administrative designee will maintain primary documentation and records.
6. All core-facilities/recharge centers should have an Oversight/Advisory committee with representation from users to provide oversight and input at a minimum of once per year into the operations of the core.
7. User-fees must reflect the actual cost of operating and must be assessed consistently to all users. The user fees for all services provided will be based upon an analysis of allocated consumable supplies, materials, labor and other related operating expenses.
8. Every facility is required to publish their rates and provide this information on-line unless a particular sensitivity exists prohibiting the posting of this information.
9. Every core-facility is expected to operate under a break-even, or revenue- neutral model. With start-up cores, break-even must occur within the first two years of operation as stated within their business plan. On rare occasions, it may be the case that a facility, due to the type of services it provides is unable to charge a rate that will cover all direct costs. The facility, may under certain circumstances consider requesting supplementary funds to allow the facility to remain competitive and affordable. If this is the case after analysis and review of the business plan, supplemental or subsidized funds can be requested from ECOR (Executive Committee on Research) at MGH or BRI (Brigham Research Institute) at BWH. Any potential funding will be made at their discretion.
10. PHS Research Management will maintain records of key documents including correspondence, rate development working papers and current service and price lists. Each core-facility Director should maintain copies of all records for audit purposes.
11. Annual review of core finances including an updated budget and continued statement of contribution to the institution will be required for all cores. Summarized data and feedback will be provided upon request to PHS Research Management.
12. PHS Research Management recharge center contact for MGH is 617-954-9308 or by

email at wlee@partners.org and the BWH contact is 617-954-9610 or by email at ncnguyen@partners.org.

Charging/ Payment Recording Procedures:

1. Journal Entries/Internal transfers are used to record charges and payments for “internal” users and invoices and checks payable to the appropriate PHS entity and issued by the outside user's institution are used for “external” users.
2. Peoplesoft Account # 951250 should be used to record internal user-fee revenue for grants being charged (recorded as “Research Core Services” on the users’ financial statements). Peoplesoft Account # 779050 should be used to record the receipt of internal user-fee income (recorded as “Research Core Revenue” on the core facility financial statements).

Peoplesoft Account # 779000 should be used to record the deposit of the direct cost portion of the External user-fee payments (checks). Checks for core services paid by “external” users need be split at the time of deposit into 1) hospital overhead bearing account (MGH: PS# 1200 –750000 MG9021 or BWH: Peoplesoft # 2200 – 750000 BW9010, BICS # 506108 9600) and the Core Facility fund using Peoplesoft Account # 779000 (recorded as Other Operating Revenue). Corrections should be made prior to the end of the fiscal year if improperly coded. (e.g. If the check is \$1,750 and \$1,000 is the direct cost component and \$750 is the external indirect cost component, the check will be split: \$1,000 will be deposited to Peoplesoft Account # 779000 and the \$750 would be deposited to the hospital overhead Peoplesoft Account #: 750000 MG9021 (for MGH) or Peoplesoft 750000 BW9010 (for BWH), BICS # 506108 9600, with associated business units of 1200 for MGH or 2200 for BWH.

3. Users should normally be charged/invoiced on a monthly basis. However, in cases where volume is small, quarterly billing is acceptable. PHS Research Management may establish cut-off times for getting current charges into the monthly close to help ensure that charges are reported in a timely manner. The importance of timely charging each month cannot be overstated since it allows for proper monitoring by recharge center staff, users/PIs and research management. This also facilitates timely error correction, allows for on-time filing of FSRs to sponsors, and reduces the need for retroactive cost transfers.
4. Charges for services are not allowed to be pre-billed or pre-paid.
5. Operating cost centers, PO funds (e.g. MG, BW, BWP or MGP) and non-research sundry funds are not to be used to pay for core services.
6. Authorization of the charge by the user (PI or designee) and validation of payment information (i.e. valid, non-expired Peoplesoft Project /Grant number) should normally be done "up-front" based on the appropriate price and number of service units provided during the billing period.

7. Documentation to support the charge must be retained by the recharge center Administrator or Business Manager as well as the user of the service. These would be submitted to the appropriate Research Management/Research Finance contact.
8. Transfers/JVs charging internal users' cost centers and crediting the recharge cost center must be prepared using the PHS Research Management standard template by the recharge center business manager and processed by Research Management as part of the monthly PeopleSoft G/L close for that period's activity. The BWH and MGH Journal Entry Forms are available on-line through the Partners Core Facility Website:
<http://www.partners.org/researchcores/home.asp> under the "Forms" section.

Roles and Responsibilities:

- *The recharge center director/PI* is responsible for requesting the establishment of new centers on the PS financial system and identifying a guarantee account to be used to cover any potential unresolved deficits resulting from the operation of the center.
- *The chair of the department* where the recharge center/core is based is responsible for counter-signing requests for new "Departmental" centers before they are sent to PHS Research Management for approval. A BWH /MGH Application for New Core-facility/Recharge Center Fund Number form is completed and forwarded to the Director of Core-facility Operations and Business Planning after approval of the core business plan.
- *The VP for Research* (or designee) is responsible for approving requests for new "Institutional" recharge centers.
- *The recharge center business manager* acts as the agent of the center director/PI in administrative and operations matters. The business manager is responsible for development of initial prices/rates and subsequent adjustments, monitoring of the fund balance, and ensuring that the center follows applicable sponsor and PHS policies, services are delivered and charged to users, and payments are collected.
- *PHS Research Management* is responsible for approving requests to establish new centers, approving prices/rates, and working with the PI and business manager to monitor fund balances on a regular basis, resolve problems and ensure compliance with applicable sponsor and PHS policies.
- *PHS Research Management* reserves the right to suspend or terminate a Core Facility for non-compliance to PHS Research Management Policy on Research Core/Recharge Cost Centers, misconduct and/or a longstanding deficit that has not been dealt with appropriately in a reasonable time-frame.