

Responsibility Center Management (RCM)

University of Pennsylvania

Office of Budget & Management Analysis

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Responsibility Center Management (RCM)

Management & Reporting at PENN

- Internal: RCM is the managerial framework for our internal budgeting and financial reporting
- External: GAAP (Generally Accepted Accounting Principals) basis

History of RCM at PENN

- Implemented at Penn in the early 70s when University was in financial distress
- Initially focused on controlling expense
- Evolved to encourage revenue growth as well

Principals of RCM

- Majority of direct revenue and expense are at school/center level
- Alignment of authority and accountability at school/center level
- Transparency regarding sources and uses of institutional resources
- Academic leaders have responsibility to advance the mission of the University within RCM framework

RCM at PENN

- Promotes the broadest possible stewardship of financial resources
 - Tuition revenue is distributed in large measure based on course units taught
 - Space charges are directly tied to occupancy and costs
 - Administrative units are funded via transparent algorithms
 - Schools recognize the full costs of their programs
- Encourages and rewards innovation and efficiency
 - Schools and resource centers retain the majority of revenue they generate and reinvest in their highest priorities

Responsibility Centers at PENN

Revenue Generating Centers

*Schools, Resource Centers,
Business Services*



Expectations

- fund the direct cost of their own operations
- cover their share of services provided by the Administrative Service Centers (via Allocated Costs)
- maintain internal budget balance and build appropriate levels of reserve

Non-Revenue Generating Centers

Administrative Service Centers



Expectations

- fund the direct cost of their own operations
- maintain internal budget balance

Tuition and Aid

Tuition Distribution Methodology

- 20% Subvention Pool (not assessed on PhD tuition)
- 20% Home School (25% of PhD tuition)
- 60% Teaching School (75% of PhD tuition)

Student Aid Distribution Methodology

- For traditional undergraduates and undergraduates studying abroad, a financial aid discount (40.0% in FY18) is assessed against home school and teaching school portions of distributed tuition to fund financial aid
- For non-traditional undergraduates, centrally incurred aid is distributed to home and teaching school
- For graduate and professional students, home school determines and incurs aid expense

Indirect Cost Recovery-- Research

- For each \$1 of direct expenditures under federal grants, Penn currently receives an additional 61¢ to cover its research overhead, including space, administrative and compliance costs
- Many non-federal grants do not provide full indirect cost recovery (ICR)
- Research ICR income is allocated at Penn as follows:
 - 88.5% Dean's office of the school receiving the grant
 - 10.5% Subvention Pool
 - 1.0% Research Facilities Development Fund (RFDF)

Other Revenue

- All Revenue other than Tuition and Indirect Cost Recovery remains in the school or center which generated the revenue
- ***Sales and Service Revenue*** and ***Other Income*** (e.g., clinical revenue) cover the costs of the good or service provided, with any net income used to support school/center operating expenses
- ***Spendable Income*** from restricted endowment and ***Operating Gifts*** are typically subject to an indirect cost recovery policy
 - No more than 20% of gift or spendable endowment revenue is used *by school or center* to support indirect expenses of program while 80% is used to fund direct expenses
 - While we strongly encourage full deployment of this policy, a school dean or resource center director has discretion to exempt an endowment or gift

Subvention Pool

- Funded primarily through 20% of tuition income and 10.5% of grant overhead
- Allocated back to schools, resource centers, and academic initiatives as directed by President's Office and Provost's Office
 - 86% of the subvention pool is committed as subvention to schools and resource centers and graduate student support to schools, with another 9% supporting key university-wide academic initiatives
- Gives Provost and President ability to influence development and implementation of academic priorities at Penn

Administrative Centers

(includes President's Office, Provost Office, EVP Office, Finance, ISC, HR...)

- In order to maximize efficiency and lower administrative costs, Penn provides a number of services centrally to benefit schools and resource centers
- Those services are paid for through direct internal charges or via Allocated Cost and Space Charges
 - Internal Charges: direct charge for services when the costs are measurable and purchasing unit can decide how much of it they want (telephone, building security guards)
 - Allocated Cost and Space Charges: When measuring discrete delivery of services by administrative centers is conceptually difficult or prohibitively costly, services are funded through formulas that allocate total cost pools among service recipients

Allocated Cost & Space Charges

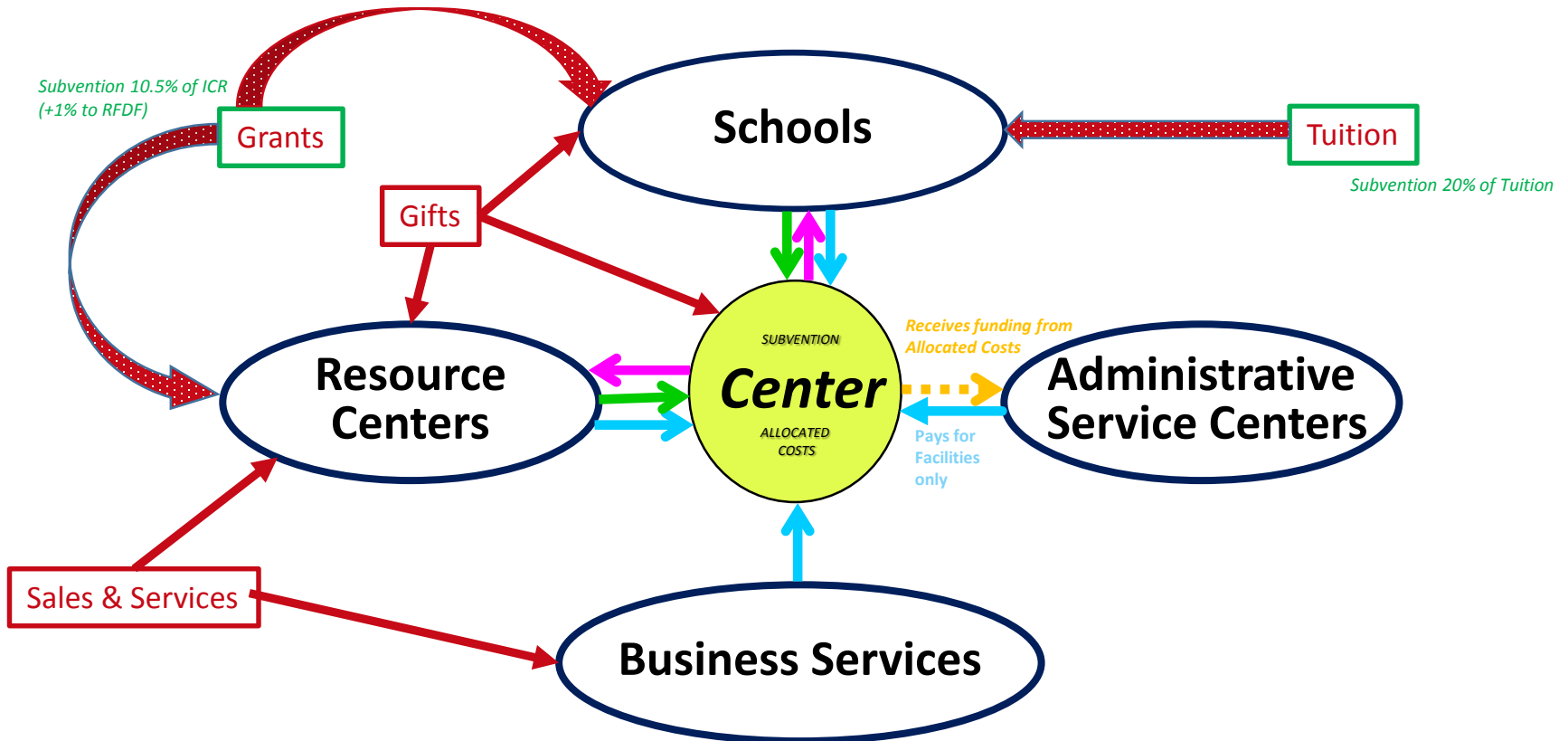
Allocated Cost Charges (61%)

- **University Services (35%)**
Allocated based on *average direct expenditures* of paying schools/centers over past 4 years
- **Development & Alumni Relations (8%)**
Allocated based on *fundraising receipts* over past 3 years and number of *living alumni* at end of fiscal year
- **Library (13%)**
Allocated based on relative number of *faculty* and graduate/professional *students* in each school and number of *UG course units taught* by each Responsibility Center
- **Research (4%)**
Allocated based on either specific *utilization* statistics or on *Modified Total Direct Costs*

Space Charges (39%)

- **Operations and Maintenance, including Utilities (31%)**
Allocated based on average *actual O&M expenditures per building* (including pro-rated share of public spaces and Facilities central overhead costs) over past 4 years
- **Facilities Renewal (8%)**
Allocated based on *estimated replacement value* of each building occupied by paying school/center

RCM on a Page



■ \$ To Subvention
 ■ \$ From Subvention
 ■ \$ To Allocated Costs
 ■ \$ From Allocated Costs

How do RCM and GAAP differ?

	RCM	GAAP
Gifts	Recorded as revenue at time of payment	Recorded as revenue when payment received and donor restrictions met
Capitalized equipment	Fully expensed in year of acquisition	Depreciated over useful life
Depreciation on buildings	Not recognized	Recorded as expense of operations
Debt service	Interest and principal payments treated as expense	Only external loan interest is expensed
Capital project funding transfers	Treated as expense of operations	Not recognized
Transfers between Responsibility Centers *	Impact operating performance through addition or diminution of resources	Not recognized