Responsibility Center Management
Responsibility Center Management (RCM)

Schools
Annenberg, Arts and Sciences, Dental, Design, Engineering and Applied Science, Graduate Education, Law, Medicine, Nursing, Social Policy and Practice, Veterinary Medicine, Wharton

Resource Centers
Annenberg Center, Institute of Contemporary Art, Libraries, Morris Arboretum, Recreation and Intercollegiate Athletics, Penn Global, Provost Interdisciplinary, University Museum

Administrative Centers
Development, Executive Vice President (Investments, Audit, Budget), Facilities and Real Estate Services, Finance and Treasurer, Human Resources, Information Systems and Computing, President (Affirmative Action, General Counsel, Government and Community Relations, Communications) Provost (IRB, IACUC, EHRS, ULAR, Admissions), Public Safety

- The managerial framework for our internal budgeting and financial reporting activities
- Created at Penn in the early 70s when the University was in financial distress, RCM was designed to control expense, but has proven to be an even stronger driver of revenue
- RCM seeks to promote broad stewardship of financial resources, enhance our capacity to generate revenue, and encourage and reward innovation and efficiency
- Schools and centers benefit from entrepreneurial activity: incentives are aligned to promote stewardship and revenue generation
10.5% of ICR (+1% to RFDF)

GRANTS

GIFTS

SALES

Schools

Virtual Center

Resource Centers

Administrative Service Centers

Business Services

20% of Tuition

To Subvention “Tax”

From Subvention Budget support

Allocated Costs Central Costs
Tuition Allocation Under RCM

Allocation of Tuition

20% Subvention Pool
20% Home School
60% Allocated to Schools based on Course Units taken (Teaching School)

Allocation of Student Aid Expense

For Undergraduates, a financial aid discount (37% in FY2015) is subtracted from the home school and teaching school portions of the distributed tuition to fund financial aid.

For Graduate and Professional Students, student aid is determined by the home school and the expense is retained by the home school.
Indirect Cost Recovery Allocation Under RCM

• For each $1 of direct expenditures under federal grants, Penn currently receives an additional 60¢ to cover its research overhead.

• 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)
Treatment of 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 balance used to support School operating expenses.

- Income from restricted endowment and program gifts are typically subject to an indirect cost recovery policy which provides that a portion of these gifts be retained by the school or center, to be applied to offset the full costs associated with the specific restricted gift purpose. No more than 20% of gift or spendable endowment revenue is used by the school to support the indirect expenses of the program while 80% is used to fund the direct expenses of the program.
The Subvention Pool

- Funded primarily through 20% of tuition income and 10.5% of grant overhead.
- Allocated by the Provost and the President.
- Is directed back to the Schools, the Resource Centers, and academic initiatives as directed by the President’s Office and the Provost’s Office. The majority of the subvention pool is committed as program regular subvention and graduate student support to the schools.
- Gives the Provost and President some ability to influence and direct the development and implementation of academic priorities at Penn.
Funding the Administrative Centers

In order to maximize efficiency and lower administrative costs, Penn provides a number of services centrally for the benefit of the schools and resource centers. Those services are paid for either through direct internal charges, or via Allocated Cost and Space Charges.

- **Internal Charges:** direct charge for services whenever possible (telephone, network connections, building security guards)

- **Allocated Cost and Space Charges:** When measuring the discrete delivery of services by the Administrative Centers is conceptually difficult or prohibitively costly, Administrative services are funded through the use of formulas that allocate a total cost pool among the service recipients.
Allocated Cost and Space Charges at Penn

Allocated Cost Charges

• University Services
  Allocated based on average direct expenditures of the paying Schools/Centers over the past 4 years

• Development & Alumni Relations
  Allocated based on fundraising receipts over the past 3 years and number of living alumni at the end of the fiscal year

• Library
  Allocated based on the relative number of faculty and graduate/professional students in each School and the number of UG course units taught by each Responsibility Center

• Research
  Allocated based on either specific utilization statistics or on Modified Total Direct Costs. The costs for these services are distributed across the paying schools and centers.

Space Charges

• Operations and Maintenance, including Utilities
  Allocated based on average actual O&M expenditures per building (including pro-rated share of public spaces and Facilities central overhead costs) over the past 4 years

• Facilities Renewal
  Allocated based on estimated replacement value of each building occupied by a paying School/Center
What Are The Benefits of RCM?

• RCM promotes
  – Disciplined financial decision making
    o Schools are responsible for their own bottom line
  – Entrepreneurial activity
    o Schools retain the majority of the revenue they generate, and reinvest it in their highest priorities
  – A Culture of Accountability
    o Tuition revenue is distributed in large measure based on course units taught
    o Space charges are directly tied to occupancy and costs
    o Administrative units are funded via transparent algorithms
    o Schools recognize the full costs of their programs
### How do RCM and GAAP differ?

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<thead>
<tr>
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<th>RCM</th>
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<td>Gifts</td>
<td>Recorded as revenue at time of payment</td>
<td>Recorded as revenue when payment received and donor restrictions met</td>
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<tr>
<td>Capitalized equipment</td>
<td>Fully expensed in year of acquisition</td>
<td>Depreciated over useful life</td>
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<tr>
<td>Depreciation on buildings</td>
<td>Not recognized</td>
<td>Recorded as expense of operations</td>
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<tr>
<td>Debt service</td>
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<td>Only external loan interest is expensed</td>
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<td>Capital project funding transfers</td>
<td>Treated as expense of operations</td>
<td>Not recognized</td>
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<td>Transfers between Responsibility Centers *</td>
<td>Impact operating performance through addition or diminution of resources</td>
<td>Not recognized</td>
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* e.g., EB Pool charges, Allocated Cost charges/funding, Subvention Pool contributions/receipts