

**SEATTLE CHILDREN'S RESEARCH INSTITUTE
OPERATING POLICIES / PROCEDURES**

DEPARTMENT:	Research Institute Administration
POLICY NUMBER:	RIA-901
REPLACES:	New Policy
EFFECTIVE DATE:	July 1, 2009
REVISION DATE:	NA
POSTED FROM:	May 6, 2009 – June 6, 2009

TITLE: Required CDAC Approval of Cores

SUMMARY:

Before a Research Center may establish a “Core” for the purposes of providing services on a recharge basis to either internal or external customers, the Center Director and Center Business Manager for the Center desiring the Core must first submit a business plan for the Core to the Center Director Advisory Committee (CDAC) for review and approval. CDAC will review the plan and assess the impact of the creation of the Core on Research Institute. CDAC review of the Core Business Plan will be focused on:

- Strategic value of the Core services to the Research Institute;
- Impact, if any, of moving the source for recovery of the resources and costs associated with the Core from F&A to direct costs of research;
- Reasonableness of assumptions regarding potential usage of Core services, and, thus, the potential for cost recovery.
- Consistency between the proposed Core and the requirements of Research Institute policies regarding the operation of cores.

If CDAC approves the creation of the Core, the Office of Research Finance will be instructed to work with the Center Business Manager and other personnel as needed to establish the accounting framework and operational elements needed to create the Core as described in the business plan submitted. Thereafter, the Center Director, Center Business Manager and ORF will be responsible for ensuring the ongoing administration of the Core in accordance with the suite of policies governing Cores: RIA-901, RIA-902, and RIA-903.

If CDAC does not approve the creation of the Core, the Center Director and Center Business Manager will be so advised and be notified of the CDAC recommendation for next steps (e.g., revision of business plan, etc.).

BACKGROUND

A “Core” (or “Cost Center” or “Recharge Center”) is a method by which the Research Institute can provide research and support services to investigators at Children’s and external customers on a fee-for-service basis. Examples of Cores currently in operation at the Research Institute include the Vivarium, Biostatistical Services, Flow Cytometry, and the Research Specimen Processing Laboratory, among others.

The creation of a Core may be prompted by the identification of either new services that would be of use to researchers at SCRI, or an attempt to change the way an existing service is accounted for and provided. From an accounting perspective, a Core, fundamentally, is a method of collecting costs that would otherwise be recovered through the Facilities & Administration costs applied to sponsored activities and moving them out of the F&A pool so that they can be directly charged. So, for example, rather than including the cost of the vivarium floor space, cages, food, staff, etc. in the F&A rate, the charges are collected in a Core and the costs directly charged to those awards making use of the vivarium services through recovery of the calculated per diems. Thus, depending on the details of the proposed Core and the resources and costs involved, the creation of a Core can result in a lowering of the Research Institute’s Facilities and Administration rates.

To explain, the F&A rate is determined through a negotiation with the Federal Government (in our case, the Department of Health and Human Services) over a simple equation:

$$\text{F\&A} = \frac{\text{Facilities Costs} + \text{Admin Costs}}{\text{Direct Cost of Research}}$$

The negotiation determines what gets included in, or excluded from, the numerator (the more that goes in, the higher the resulting F&A rate) and what gets included in, or excluded from, the denominator (the more that goes in, the lower the rate). At risk of oversimplification, by creating a Core the Institute in effect voluntarily moves costs out of the numerator and into the denominator.

As a result, any proposed Core must be evaluated for its potential impact on our balance sheet. Imagine, for example, a Core that moved enough costs from above the line to below the line to lower the bench F&A rate from 95% to 94%. Given our bench MTDC in the last year of \$8.3M that Core would need to recover a minimum of \$83,000 (1% of \$8.3M) in order to be financially viable. If it could not, solely as a question of economics, the Research Institute would be better off leaving the Core unformed and recovering those costs through the continued application of the higher F&A rate.

Of course, financial considerations are only one aspect of the evaluation of a potential Core, and it is certainly possible for a Core to have important strategic value despite a bleak balance sheet.

Accordingly, as the group responsible for the long term strategic planning and performance of the Research Institute, CDAC must evaluate any potential Core in order to assess both the economic outlook of the Core and its less tangible costs or benefits. It is the responsibility of CDAC to ensure that formation of the Core supports the long-term strategic goals of the Research Institute.

This policy establishes the requirement for CDAC approval of any proposed Research Institute Core prior to its creation or operation and documents the requirements for a business plan as the means for securing such approval. The requirements of this policy apply only to new Cores proposed anytime after the effective date of the policy. Those Cores already in operation are exempted from this requirement for CDAC review.

However, please note that this policy is not the only policy applicable to Cores. In addition to this policy requiring CDAC approval for the creation of a Core, the Research Institute also has policy governing rate setting for Cores (RIA-902) and the operation of a Core (RIA-903). These additional policies apply to all Cores at the Research Institute, and should be reviewed prior to the development of a business plan for a proposed Core.

Further, many Cores (e.g., Biostatistical Services) are subject to Core-specific policies which must also be followed.

POLICY/PROCEDURE:

- 901-1 All proposed Cores are required to submit a proposed business plan to CDAC for approval before they begin operations. Before establishing the various Lawson activity numbers necessary to administer a Core (see RIA-903), the Office of Research Finance will confirm CDAC approval of the Core.
- 901-2 There is no required format for a Core business plan. However, the business plan should, at minimum, include the following:
 - 901-2.1 A brief description of the goods and/or services the Core will provide.
 - 901-2.2 Discussion of the competitive environment in which the Core will operate:
 - 901-2.2.1 What is the established need for the Core services, and how was that determined.
 - 901-2.2.2 What other sources exist for procurement of the intended goods/services.
 - 901-2.2.3 What is the expected life of the Core? Is there any basis on which to forecast increased (or decreased) need for the services over time?
 - 901-2.3 A Rate Schedule for the Core goods/services (see RIA-902).
 - 901-2.4 Discussion of the plan for Core operations (see RIA-903), including:
 - 901-2.4.1 Lawson accounts required – e.g., operational account, equipment reserve.

- 901-2.4.2 Expected procedures for tracking Core usage/sales.
- 901-2.4.3 Contingency planning for potential deficits (or, less crucially, surpluses)
- 901-2.4.4 Management of rate components related to equipment depreciation, “profit margins” charged to external users,
- 901-2.5 Confirmation from the Director of the Office of Research Finance that the plan seems reasonable and the calculations are accurate, as well as identification of any potential impact on F&A recovery or other financial issues of impact to the Research Institute.

- 901-3 Once the business plan is complete, it should be reviewed and approved by the Center Director for the center housing the Core. Center Director approval confirms that the Center Director is supportive of the creation of the Core, agrees with the assumptions and projections contained in the business plan, and is prepared to assume the risks associated with the creation of the Core.

- 901-4 Following Center Director approval, the business plan should be forwarded to the Chief, Research Operations (CRO) for review, provision of a staff recommendation and further disposition. The CRO will contact the Executive Assistant for the President of the Research Institute to schedule and coordinate review by CDAC.

- 901-5 The members of CDAC will review the proposed business plan, and time in a subsequent CDAC meeting will be allocated for discussion. CDAC will have the option to:
 - 901-5.1 Approve the Core business plan as drafted;
 - 901-5.2 Request alteration and resubmission of the business plan;
 - 901-5.3 Deny the proposed Core business plan; or
 - 901-5.4 Take other steps they deem appropriate with regard to the formation of the Core.

- 901-6 If CDAC approves the Core business plan, the affected Center Business Manager and Director of the Office of Research Finance will be notified and the Core established in accordance with the business plan and the requirements of RIA-903.

- 901-7 For all other decisions by CDAC, follow-up will be as directed.

Submitting Office: Research Institute Administration

Approved by:

\\s\ Erik M. Lausund, Vice President Research Operations, 7/1/09

\\s\ James B. Hendricks, PhD 7/1/09
President, Seattle Children’s Research Institute