

CHAPTER 5
RESEARCH COSTS

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500. PRINCIPLE

Costs incurred for research purposes, over and above usual patient care, are not includable as allowable costs.

502. DEFINITIONS

502.1 Research.--Research in the context of this principle means a systematic, intensive study directed toward a better scientific knowledge of the science and art of diagnosing, treating, curing and preventing mental or physical disease, injury, or deformity; relieving pain; and improving or preserving health. Research may be conducted at a laboratory bench without the use of patients or it may involve patients. Furthermore, there may be research projects that involve both laboratory bench research and patient care research.

502.2 Usual Patient Care.--Usual patient care is the care which is medically reasonable, necessary, and ordinarily furnished (absent any research programs) in the treatment of patients by providers under the supervision of physicians as indicated by the medical condition of the patients. Also, this definition intends that the appropriate level of care criteria must be met for the costs of this care to be reimbursable. Such care is represented by items and services (routine and ancillary) which may be diagnostic, therapeutic, rehabilitative, medical, psychiatric, skilled nursing, and other related professional health services.

502.3 Extraordinary Patient Care.--In the context of this principle, extraordinary patient care is the care rendered to research patients which is not medically reasonable, necessary, or ordinarily furnished to patients by providers. Such care is represented by additional patient care days and additional ancillary charges identified as non-Medicare in the patient care costs centers.

504. DETERMINATION AND ALLOCATION OF COSTS

504.1 Accounting for Research Costs.--Costs of research are not reimbursable to providers. Where, however, research is conducted in conjunction with or as a part of the care of patients, the costs of usual patient care are reimbursable to the extent such costs are not met by research funds (see § 504.2). The costs of extraordinary patient care based on research objectives are not reimbursable (see § 504.3).

A separate cost center for research should be established in the providers' accounting records. The research cost center must be used to accumulate all direct and indirect costs associated with research as described below. Costs applicable to the research cost center consist of bench research costs and certain other costs that may be incurred in the patient care areas for research purposes which are not represented by patient days and ancillary charges such as: the salaries of personnel with higher

professional qualifications than ordinarily needed to furnish usual patient care; the cost of equipment and facilities which are more complex and specialized than needed to render usual patient care.

A. Direct Costs.--Direct research costs such as employees' compensation, materials, supplies, contractual services, etc. must be directly assigned to the research cost center on the providers' records.

B. Indirect Costs.--Indirect research costs such as administrative expenses, employee fringe benefits, maintenance, operational expenses, etc. must be allocated to the research cost center through the cost-finding process. Indirect costs are shared by the research and patient care cost centers and cannot be directly charged to the research cost center on the records of providers.

504.2 Accounting for Usual Patient Care Costs Incurred in Conjunction with Research.--Where research is conducted in conjunction with or as a part of the care of patients, the costs of the usual patient care are reimbursable to providers to the extent that such costs are not met by research funds. (See § 505.1 for the treatment of usual patient care costs where research funds finance usual patient care costs.)

Usual patient care costs incurred in conjunction with the research must be specifically identified in those situations where a portion of the research funds as applicable to usual patient care costs. (See Exhibit I for the method to be used in identifying usual patient care costs.) In these instances, providers must maintain statistics on research patients for each research project to identify the patients and the patient days and ancillary charges applicable to the usual patient care furnished by providers. Worksheets similar to Exhibit I must be attached to the cost reports.

504.3 Accounting for Extraordinary Patient Care Costs Incurred in Conjunction with Research.--Extraordinary patient care costs incurred in conjunction with research are not reimbursable to providers. Such patient care costs which are represented by additional patient days and ancillary charges are classified as non-Medicare patient days and charges in determining Medicare reimbursement.

505. TREATMENT OF RESEARCH FUNDS (GRANTS, GIFTS, ETC.)

505.1 Treatment of Research Funds Applicable to Usual Patient Care Costs.-

A. Offset Against Costs Incurred for Usual Patient Care.-- Where research funds are received by providers to either fully or partially finance usual patient care costs incurred in conjunction with the research, the portion of the research funds designated for usual patient care will be used as an offset to costs of the applicable patient care cost centers to the extent of the usual patient care costs incurred for such research. This offset should be shown on a supplemental worksheet after cost finding. If it is known that

excessive research funds (funded for both direct and indirect costs) for usual patient care costs (as determined by the grantor or donor) must be returned to the grantor or donor, providers are not required to offset these excess funds against allowable patient care costs.

B. Determination of Research Funds Applicable to Patient Care Cost Center.--If specific amounts of research funds are designated to cover usual patient care costs of each patient care cost center, these funds must be used to offset the costs of the applicable patient care cost centers to the extent of the usual patient care costs incurred for the research as determined in Exhibit 1. However, if the grantor or donor specifies that the funds should cover usual patient care costs, but does not identify the amount of the funds to be used for usual patient care costs, but does not identify the amount of the funds to be used for usual patient care costs of each patient care cost center, then this information must be determined in accordance with subparagraphs 2 and 3 below. On the other hand, if research funds are not specifically identified for usual patient care, but providers use the funds for such costs, funds used for usual patient care costs of each patient care cost center must be determined as follows:

1. Providers must identify the portion of the grant which is applied to usual patient care costs incurred in conjunction with the research;

2. The usual patient care costs of each patient care cost center incurred in conjunction with the research must be determined after cost finding. The method illustrated in Exhibit 1 must be used to identify the costs by patient care cost center; and

3. The research funds related to the usual patient care costs of each patient care cost center must be determined in accordance with the method illustrated in Exhibit 2 for those research projects that cover only one cost report period or Exhibit 3 for those research projects that cover two or more cost report periods.

Upon determining the portion of the research funds applicable to the usual patient care costs of each patient care cost center, these funds must be used as an offset to the costs of each patient care cost center. The offset, however, is limited to the amount of usual patient care costs of each patient care cost center incurred in conjunction with the research.

C. Effect of Offset.--If the portion of the research funds applicable to the costs of usual patient care equals or exceeds the related usual patient care costs, providers will not be reimbursed for any of these costs because of the offset, and the related patient days and ancillary charges must be excluded from the Medicare and total statistics used for apportioning costs. **If the costs of usual patient care days and ancillary services related to the research are not totally paid for by the**

research funds, the research funds will simply be used to reduce the costs of the routine and ancillary services, and the related patient days and ancillary charges should, likewise, be excluded from Medicare and total statistics used in apportioning costs to Medicare.

505.2 Treatment of Research Funds Applicable to Costs of Research Cost Center.-- The portion of the research funds applicable to the costs of the research cost center must not be offset against the costs of the research cost center or allowable provider costs.

506. STUDIES RELATED TO ADMINISTRATION AND OPERATION

Studies, analyses, surveys, and related activities aimed at improving and making provider administration and operation more efficient are not considered research costs, but the includable in allowable administrative costs subject to the principle, "Costs Related to Patient Care," found in Chapter 21.

EXHIBIT 1

NOTE: THIS SPACE IS RESERVED FOR DETERMINATION OF USUAL PATIENT CARE

EXHIBIT 2

NOTE: THIS SPACE RESERVED FOR DETERMINATION OF THE PORTION OF RESEARCH FUNDS

EXHIBIT 3

NOTE: THIS SPACE RESERVED FOR DETERMINATION OF THE PORTION OF RESEARCH FUNDS

