University Contributions to Research and the Underrecovery of Compliance Costs-
Talking Points

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**Extent of Under-Recovery**

An initial study of 20 research-intensive universities completed in June 2002, demonstrated that:

- Nineteen of the 20 universities have administrative costs that exceed the 26% cap imposed by OMB in 1991. As a result, under-recovery of costs due to the 26% cap for these institutions in FY 2000 was about $46 million, or $2.4 million per institution on average. Based on data collected in the annual COGR survey of F&A rate data, 85% of the major research universities have administrative costs that equal or exceed the 26% cap. As a result increased compliance costs, which largely fall into the administrative cost component of F&A, are borne disproportionately by the universities.

- Compounding this is the additional under-recovery that occurs when federal agencies have research programs that do not pay the negotiated F&A rate on resulting awards. Examples include the NIH Career awards, all USDA awards, and numerous individual agency programs that limit F&A reimbursement. For the 20 universities in this study, under-recovery due to such agency practices in FY 2000 was about $112 million, or $5.6 million per institution.

- These findings are consistent with the 2000 RAND study, commissioned by OSTP and entitled “Paying for University Research Facilities and Administration”, which found that under-recovery of F&A costs due to the cap and agency limits on F&A payments is between $0.7 and $1.5 billion each year.

**Increased Compliance Costs**

Using the above-described study as a baseline, COGR conducted a more comprehensive analysis of the cost of new compliance requirements, and completed a “Report of the Working Group on the Cost of Doing Business”, in June 2003. This study examined the incremental compliance costs associated with new or expanded federal regulations that impact research, as incurred and estimated for 25 major research universities for the period 2000-2005, and found that:
• The 25 universities estimate they will spend approximately $411 million, or $16.5 million per institution on average, for incremental compliance activities during the 2000-2005 period. Extrapolated to the top 100 research universities, the estimated level of incremental compliance-related expenditures is $1.2 billion for the period 2000-2005.

• Compliance costs are escalating rapidly over time. Average incremental expenditures for new and expanded requirements range from about $1.8 million per university in 2000 to $4.1 million of projected expenditures in 2005. The 25 universities report that 84% of these new incremental compliance costs will fall into the administrative cost components of the F&A rate.

• Twenty-four of the twenty-five universities already have administrative costs that exceed the 26% cap and thus must expend a disproportionate amount of institutional funds to meet federal research compliance requirements. Of the top 100 universities based on federal research funds received, 85 have actual administrative costs that exceed the 26% cap.

**Increased Research Volume Does Not Offset the Growing Cost of Compliance**

Additional raw dollar recovery of F&A costs due to increases in the research base do not mitigate the increased costs incurred for compliance. A more detailed analysis of data from the 25 sample universities in the June 2003 study shows that the rate of increased costs due to new and expanded compliance requirements generally equaled or exceeded the rate of increase in the research base. Thus, the under-recovery of administrative costs continues unabated.

For example:

- A large private university in the east had $8 million of unrecovered compliance costs in 2000 because of the 26% cap. The university’s research base increased nearly 25% between 2000 and 2002, resulting in recovery of an additional $17 million of compliance costs. However, actual compliance costs increased $19 million over the same period, thus increasing the unrecovered compliance costs to $10 million in 2002 due to the 26% cap.

- Similarly, a large public university in the mid-west had $11 million of unrecovered compliance costs in 2000 because of the 26% cap. Between 2000 and 2002 this university’s research base increased by about 5%, resulting in recovery of an additional $2.8 million of compliance costs. However, actual compliance costs increased $4.7 million over the same period, thus increasing its unrecovered compliance costs to $13 million in 2002 due to the cap.

The June 2003 report includes case studies that describe the complex process involved for universities to establish effective compliance programs that meet new or expanded regulations – the Health Insurance Portability and Accountability Act, the PATRIOT Act and control of Select Biological Agents, Environmental Health and Safety, and Protection of Human Subjects in Research.
**Growth in University Cost Sharing Outpaces Other Support**

The findings from the COGR studies are reflected in the most recent report from NSF on academic research expenditures (NSF 04-319). In reporting on the growth and sources of funds for academic research expenditures, NSF states, “funds from institutions’ own sources increased the fastest, over 10% in 2001.” According to NSF, University funds to support research reached $7.1 billion in 2002, or 20% of total expenditures. As recently as 15 years ago the university share of total expenditures was 10%. This significant contribution of funds demonstrates the universities’ commitment to support research and requires them to maximize administrative efficiency. However, we believe a comprehensive strategy is needed to address the growing imbalance in support for the university research infrastructure.