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A PROPOSAL TO REDUCE THE CONTROVERSY  
OF THE ADMINISTRATIVE COSTS OF RESEARCH

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## SUMMARY

The purpose of this paper is to suggest a mechanism which would reduce the controversy regarding the appropriate allocation of certain difficult to document indirect research costs. The Council on Governmental Relations (COGR) proposes that faculty effort, as an element of the Departmental Administration component of indirect costs, be determined and allocated in a manner that would avoid the necessity for controversial cost allocation methods. These costs would be determined by agreement between the cognizant negotiating agency and each university and could be accomplished by setting this element of cost reimbursement at a certain percentage of faculty salaries or some other variable, or a fixed number of points of the indirect cost rate, or a specific dollar amount. Under such arrangements the universities would discontinue faculty effort reporting for indirect cost reimbursement purposes and could eliminate voluntary cost sharing documentation. Such a mechanism may also reduce administrative costs now incurred by research universities. Universities could continue to cost share as mutually agreed upon but cost sharing need not be included in the indirect cost base.

## BACKGROUND

In 1983 and 1984 the National Institutes of Health proposed arbitrary cuts to indirect cost reimbursement to universities citing as a reason for this action that indirect costs, as a percentage of total project costs, had increased from 20 percent to 30 percent over a ten year period. Departmental Administration costs were identified as the costs rising most rapidly and were proposed as the primary target for reduction. Congress rejected this arbitrary proposal, and instead urged a more reasoned approach.

In addition, the President's Private Sector Survey on Cost Control (PPSSCC) recommended negotiation of fixed rates for faculty administrative elements at each institution, in exchange for reducing administrative costs associated with effort reporting. The PPSSCC said "this would help eliminate the most contentious element in the management of grant programs." In other words, they urged cost cuts, not just reimbursement cuts. The General Accounting Office, in studying the audit and negotiation process of the Department of Health and Human Services,

echoed a recommendation to establish a fixed allowance for Departmental Administration on an institution-by-institution basis with a reduction in record keeping requirements imposed by the federal government.

Currently, there are a number of institutions that have negotiated or are in the process of negotiating fixed arrangements for their Departmental Administrative component in exchange for elimination of faculty reporting of indirect effort, elimination of cost sharing from the indirect cost calculation, or some other change that would reduce costs.

The Office of Science and Technology Policy is studying indirect costs in the broader context of the financial health of United States universities, and their role in the conduct of research and production of trained manpower. We have always urged the government to examine research costs, direct and indirect, in this broader context. Because universities and the federal government often share an interest in research work being undertaken, it has been a deliberate policy at many research universities to provide voluntary support for part of the cost of federally sponsored research. But, the notion that universities have yet more untapped resources with which they can contribute to the costs of research is erroneous. Universities are often "forced" to further subsidize federal research efforts but they are only able to do so by using tuition funds, state appropriations, or other funds, which result in the restriction of other activities. The government often mandates cost sharing well beyond what universities should be expected to provide for such activities.

The Council on Governmental Relations believes it is necessary to demonstrate a willingness to work with the federal government as it addresses the broad issues as well as the specific issue of faculty effort reporting. We do so from the framework that universities are the most important national source of basic research and are the only source of training future academic and research scientists and engineers. We also believe it is in the national interest to support both basic research and the training of graduate students because economic development, national defense, and an increased standard of living for U. S. citizens depends more than ever on the availability of first rate science and engineering talent. The ability of universities to maintain and improve their contribution in these areas is dependent upon maintaining good financial health.

Universities receive financial support from many sources, including student fees, endowment income, gifts, state appropriations, federal appropriations, federal grants, contracts, fellowships and financial aid, and business and industry. All sources of financial support must be treated fairly in terms of the allocations of cost and the uses of the funds provided.

In evaluating the COGR proposals it is important to keep in mind several key points:

1. Indirect cost rates are not necessarily good indicators of efficiency. Rather, they reflect the type of institution, its basic mission, and the managerial and accounting systems used, and external factors such as escalating utility costs.
2. University administrative costs are continually under pressure and scrutiny so as to demand lean management. When compared to private government research contractors, university indirect cost rates are low.
3. Since 1958 the federal government has relied on OMB cost principles as the guide for reimbursement of both direct and indirect costs of grant and contracts awarded to universities.
4. The federal government and universities are concerned about increasing costs, including indirect costs.

COGR believes it will be to the benefit of all concerned for the federal government to maintain its policy of full reimbursement of all appropriate and allowable costs associated with contracts and grants so that other funds, when available, need not be diverted from instruction or other university needs to pay part of the federal government's fair share. Within the context of existing federal cost principles and in the interest of avoiding unproductive controversy, universities are willing to negotiate the process and procedure by which the troublesome indirect cost amount for the faculty element of Departmental Administration is computed.

## PROPOSAL

The COGR Board is prepared to make the following proposal to its membership. Essentially, this proposal provides alternative means by which the faculty element of Departmental Administration may be fixed and controlled.

Specifically, COGR proposes that the faculty element of Departmental Administration be determined by one of the following methods. It is understood that the alternative applied must be mutually acceptable to the institution and the negotiating agency. Should this not be the case and agreement cannot be reached then this cost element would be determined through an annual effort reporting and cost allocation process as provided in OMB Circular A-21.

1. a certain percentage of total faculty salaries in a base year or an average based on previous experience.
2. a certain percentage of some other relevant variable within Departmental Administration using a base year or an average based on previous experience.
3. a fixed number of points of the negotiated indirect cost rate in a base year or an average based on previous experience.
4. a specific dollar amount which would either increase or decrease from year to year by the application of a predetermined and agreed upon method.

If one of these options is selected by an institution, it is expected that it would be used on a consistent basis over a reasonable period of time. The methodology of calculating the faculty element of Departmental Administration used would be subject to periodic review. Further, it is understood that costs previously attributed to faculty effort in Departmental Administration will not be shifted to other cost categories as a result of using these options.

In consideration for the use of one of these methods, universities would



discontinue faculty effort reporting for indirect cost reimbursement purposes. Institutions would also expect to be allowed to discontinue documentation for cost sharing for indirect cost purposes, obviating the need to include such costs in the indirect cost rate computation. Universities might continue to cost share voluntarily as described earlier when mutually agreed upon.

This proposal would:

1. reduce controversy over the determination and allocation of a major administrative cost component;
2. provide some cost reduction resulting from the elimination of effort reporting for indirect costs and cost sharing documentation;
3. permit a university to select an alternative most suitable to its own particular circumstances and acceptable to its cognizant agency; and
4. not require the revision of existing federal cost principles.

We believe this proposal is responsive to the call to restrain administrative costs to appropriate levels and to reduce the controversy regarding the allocation of faculty administrative costs. This proposal deals only with the Departmental Administration component of indirect costs but it should be noted that forces currently in the system may lead to rising costs which will affect indirect costs. Because the university infrastructure (i.e., equipment, buildings, physical plant, and libraries, all of which contribute to indirect costs) suffers from accumulated obsolescence and deferred maintenance, replacement and upgrading of these facilities will result in higher costs. If the United States is to maintain preeminence in science and technology, it must improve its research infrastructure.

COGR is encouraged by the Government's intention to address the health of university research and stands ready to provide assistance to this critical and essential review.