

COUNCIL ON GOVERNMENTAL RELATIONS

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March 16, 1995

TO: PRIMARY REPRESENTATIVES OF PARTICIPATING UNIVERSITIES
FROM: Milton Goldberg *MG*
SUBJECT: COGR Response to Proposed Changes To OMB Circular A-21

Enclosed is COGR's response to the balance of the proposed changes in OMB Circular A-21. You are urged to make your opinion known to OMB. The deadline for comments is April 7, 1995.

As you know, the COGR Board supports the thrust of the proposed revisions (excluding CAS), but has reservations with several specific proposals, especially the one which eliminates individual cost studies before an alternative is in place.

The COGR response to the application of the Cost Accounting Standards and Disclosure Statement were sent to you on February 17, 1995.

Enclosure



an organization of research universities

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**Office of Federal Financial Management
Office of Management and Budget
Room 6025
New Executive Office Building
Washington, D.C. 20503**

**Reference: 60 FR 7105 of February 6, 1995
Revision of OMB Circular A-21**

Gentlemen:

The Council on Governmental Relations is an organization of 137 research intensive universities, and we write to provide comments relating to the proposed revisions to OMB Circular A-21, as published in the Federal Register of February 6, 1995.

Over the past four years, the higher education community has worked closely with federal officials in the Office of Management and Budget, the Office of Science and Technology Policy, the Department of Defense, the Department of Health and Human Services and the National Science Foundation, as well as other funding agencies, to consider how to make our system of funding and reimbursement for research costs more equitable, more accountable and more efficient. We applaud government participation in these discussions and expect to continue to work together to improve this excellent system of federally sponsored research at colleges and universities, which is so critical to the future economic health of our nation.

We recognize that many of the latest suggestions for revision to Circular A-21 arise from this dialogue and that they are intended to accomplish the objectives cited above - namely, greater efficiency, improved accountability and equity. A pressing question facing universities and the government as we prepare for the next decade is how will we generate the capital necessary to train new researchers, to modernize laboratories, to update extensive library collections, both electronic and print media, and to make the best knowledge and teaching available to our citizens. This is a key issue we must face together. Changes which serve to penalize universities which have invested in

productive research facilities are, we believe, not in the national interest, whether or not they reduce federal expenditures in the short run.

COGR, therefore, offers the following comments and suggestions about the proposed changes, accepting some as appropriate, and suggesting modifications in others as not consistent with achieving our joint goals.

**Detailed comments on particular proposals:
(Not necessarily in priority order)**

1. Establish a single set of rules governing reimbursement under the transition from use allowance to depreciation for buildings and equipment (section J.12.b.(3)).

In the past, the government had different rules for changing cost recovery methods for buildings and equipment through the adoption of depreciation schedules. The proposed Circular A-21 provision would achieve desirable uniformity, but at the same time it discourages investment in new facilities, since the full cost of the building or equipment could not be recovered when changing from use allowance to depreciation. We therefore recommend that in the conversion from use allowance methodology to depreciation, depreciation be permitted on a go-forward basis, and that institutions not be required to depreciate previously-acquired assets. This could be accomplished by changing the phrase "...a combination of the depreciation and use allowances may not be used...for...assets..." in paragraph J.12.d to "...a combination of the depreciation and use allowances may not be used...for...*new* assets..."

2. Eliminate the current practice of individual cost analysis studies for utility and library costs (section E.2.d(5)), and replace them by a system of standard benchmarks for these costs.

We object to removing the provision for individual cost studies before any improved methodology is in place. Cost analysis studies are intended to reflect real cost differences and experiences attributed to research. Where these analyses are done and used, universities have documented real and significant differences from the standard default methodology allowed in Circular A-21. We know of no evidence in support of the view that these cost analysis studies are wrong or bad practice. The fact is, differences in the relative proportion of research versus instruction or other campus activities, lead to real differences in the allocation proportion of libraries and utilities. These differences are neither arbitrary nor artificial. Simplified studies, standard methodologies for review or more reasonable default methods would all contribute to reducing cost in this area.

The university community fully supports efforts to revise the standard method for allocating utility and library costs to research to better reflect actual usage. Because cost analysis studies must also balance the desire for precision with the cost of conducting cost analysis studies, it would also be helpful to define the appropriate documentation standards and audit tests which they must meet. In the end we are seeking an allocation approach on which we can agree rather than a listing of specific expenditures. There is work now underway with multiple agency and university participation to develop such standard methodology and criteria. This work should be completed and reviewed before provisions regarding the use of cost studies are changed. More appropriate standard methodologies will reduce the need for individual cost studies, but cognizant agencies and universities should not be precluded from agreeing on alternate cost allocation methods in exceptional cases to avoid documented inequities.

3. Require that the reimbursement rate remain the same throughout the life of a research grant (section G.7).

Freezing of a reimbursement rate is often done now for the life of a particular award, but not for the life of a project. This proposal needs fine tuning before it is implemented. We are concerned about the imprecision of the term "life of the sponsored agreement", because we do not know how long that is. Furthermore, the situation of universities operating under fixed rates with carryforward needs to be considered.

Our first concern could be addressed if the ambiguous term "life of the sponsored agreement" were carefully defined and did not exceed a period of three years. A reasonable transition period for those universities which have rates with carryforward would contribute to solving the second problem.

4. Eliminate the allowability of dependent tuition benefits (section J.51).

These benefits, where offered, are an integral part of the basic compensation package for university employees and are an essential component in the recruitment and retention of faculty and staff. We believe the tuition assistance program helps hold down salaries, provides a valued benefit to low-wage as well as highly-compensated individuals, and is beneficial to the Government in terms of cost and employee performance. We oppose any action that would make this portion of the compensation package unallowable.

5. Introduce additional restrictions on the charging of interest on acquisition costs of capital assets (section J.22.e).

Under section J.22.e(1) universities would be required to provide analyses of various options for acquiring new research space. While most universities make such analyses at the present time, this provision would require new documentation without promising to reduce costs to the federal government. There may be good institutional reasons for not selecting the least cost facility acquisition option. How these costs would then be treated and partially recovered is not addressed.

Paragraphs (2), (3), and (4) all appear to address a concern that universities should offset investment earnings against interest costs. Stating such a requirement is sufficient guidance which need not be further encumbered by extensive and burdensome documentation requirements.

Paragraph (4) (c) appears to limit the ability of universities to relocate federal programs based on past depreciation or interest charges. Depreciation and interest charges are for current use costs and should not restrict future options to allocate space or relocate programs. We recommend that this paragraph be deleted.

6. Limit the responsibility for cost negotiation to two federal agencies: DHHS and DOD (section A.).

We believe that the incorporation of Circular A-88 into Circular A-21 is a reasonable change. However, the sentence added in paragraph b., which permits an agency to use a lower indirect cost rate for a class or even a single sponsored agreement is inappropriate. It defeats the purpose of cognizance, which is designed to bring a more uniform, government-wide approach to indirect costs. Negotiation of a single federal rate with a cognizant agency avoids the cost to both the government and university of negotiating separate rates with each agency. The provision allowing rate changes on individual sponsored agreements opens the possibility of different rates, depending upon the whims of program managers in individual agencies, an outcome contrary to the intent of this revision. We ask that this sentence be deleted.

We believe that the provision in paragraph a. that once cognizance is established, it will continue for five years provides too short a period. With three and four year rate agreements, the five-year period could allow for but one rate negotiation before cognizance changed, which would be inefficient for both universities and the government. We recommend that the five year period be changed to ten years.

Additionally, we support provisions which would allow DHHS and DOD to mutually agree how they might assign different universities to the two agencies. We recommend that this option be included.

7. Establish a federal interagency working group responsible for the coordination of policy development for grants (section A.4.).

This working group is intended to provide a federal locus for efforts at simplifying and reducing the costs of administering research awards. It will be most useful in conjunction with activities such as those of the Federal Demonstration Project, which has made important contributions in the past ten years to reducing administrative burden. We support the creation of this group, but we believe that it would be more appropriate to provide for it through a modification of OMB Circular A-110, rather than Circular A-21. Circular A-110 deals with matters of grants administration, which is the venue in which grants management improvements are usually considered.

8. Use throughout the Circular terminology that accurately describes research costs, viz., administrative and facilities costs.

The term formerly used for these costs, "indirect costs", while descriptive of the method of charging, gave no indication of the nature of the costs, and at times carried the connotation that somehow these costs were less real or necessary for the performance of the research. We agree with this change.

Comments on suggested additional revisions:

9. Establish a process for assessing reasonable costs for federal reimbursement of research facility construction and renovation.

This recommendation is made to address increased costs associated with facilities construction and renovation. The government proposed to form a committee of federal officials who would develop benchmarks for construction costs. We believe that facilities costs have increased because universities have invested in modernizing their facilities in order to conduct cost effective state of the art research and any other behavior would have prevented the pursuit of promising lines of research. The cost of not investing would likely be greater than the costs of modernizing.

The government believes that this investment ought to be governed by a new system of benchmarks. Such a system will assure that the government will only pay its share of costs for standard laboratory construction, and where additional costs arise,

e.g., to maintain an architectural style, those costs will be borne solely by the university. We support the concept and the development of the benchmarks for construction costs. We recommend that the committee developing and periodically updating the benchmarks include representatives from universities, and that the committee reviewing costs above the benchmarks include architects, engineers, researchers and university administrators. The broadened representation would provide maximal expertise and help to assure more comprehensive consideration of decisions regarding research. The goal of these reviews should be to ensure that appropriate facilities costs are being charged to research, not simply to reduce facility charges.

10. Develop a standard methodology for the treatment of special costs such as those of animal facilities, computing centers or hazardous waste disposal.

This methodology will eliminate substantial perceived variations in the cost of research projects. These variations arise depending upon the extent to which costs for these services are spread over the university as a whole, or just over selected research projects. It will lead to a significant reduction in the variances of reimbursement rates, as well as variances in direct cost charges for the same service. We support this effort and would be willing to assist.

11. Develop standard benchmarks for utility costs.

As indicated in item 2. above, the university community fully supports efforts to revise the standard method for allocating utility and library costs to research to better reflect actual usage. Work already ongoing with multiple federal and university participation to develop such a methodology should be completed and reviewed. Because utility costs vary widely in different regions of the U.S., a "one size fits all approach" - that is, a single standard benchmark for everyone - would be unreasonable, inequitable and unfair.

12. Ask the Federal Demonstration Project to develop and test a model for the direct charging of space costs.

The notion of charging for space costs on a grant-by-grant basis has long appealed to some as a way to control space usage. It is not simply a technical matter, but rather a major policy issue, which needs to be examined first. We believe there are also significant difficulties in the implementation of such an approach. University research is a collaborative activity carried on in a rich context of teaching and learning, not a discrete manufacturing or contracting service. The Federal Demonstration Project should be asked to evaluate the desirability and appropriateness of this type of charge and its impact on research quality, funding

and costs. As part of an evaluation process, its feasibility should be established and its benefits stated. After the policy issues are examined and the technical issues identified, the Federal Demonstration Project could be asked to demonstrate this policy if such demonstration were proven desirable.

13. Examine and potentially revise the useful life schedule for equipment.

We believe that it is important to remove disincentives for investment in equipment modernization and replacement. The federal investment in research is most cost effective when cutting edge equipment is available for use by researchers. Assigning realistic lifetimes to equipment is a desirable goal we support.

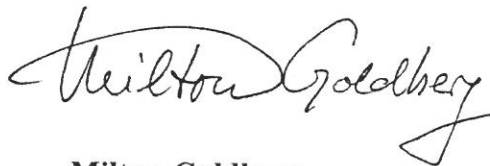
14. Examine methods for explaining variations in facilities and administrative costs rates.

Such examination should have as a goal identifying those variations which result from true cost differences. To be useful in this regard it will be necessary to go beyond a uniform chart of accounts, or even a specification whether a particular cost item is charged directly or forms part of an administrative or facilities pool. We note that much standardization in this area already has occurred as a result of the 1993 changes in Circular A-21; the proposed activities of item 10 will go further in this direction. Such actions manifest themselves in rate changes after a new negotiation cycle has begun.

Our past experience in such analyses has indicated that the most effective approach is to select a small sample of universities, and then discuss both through a written questionnaire and face-to-face meetings the various factors which contribute to cost differences.

COGR has already conducted an analysis of why rates vary. Once some of these proposed reforms are implemented, it would be instructive to examine reasons for remaining variances in costs. We would be happy to assist in such an undertaking.

Sincerely,

A handwritten signature in cursive script that reads "Milton Goldberg". The signature is written in dark ink and is positioned above the printed name.

Milton Goldberg