RESEARCH COMMITTEE[•]
January 7, 1993
Minutes of the Meeting

PRESENT: Paul Sackett, Daniel Feeney, V.S. Mangipudi, John Basgen, Eric Klinger, Signe Betsinger, Sara Evans

REGRETS: Essie Kariv-Miller, Toni Potami, WinAnn Schumi, Jonathan Wirtschafter

ABSENT: Albert Yonas, N.L. Gault, Susan Markham, Khahn Nguyen

GUESTS: Mark Brenner, Marilyn Surbey, Fay Thompson

The minutes of the last meeting were approved.

Paul Sackett, Chair, began by saying that the agenda topic for the meeting was intended as an informational briefing to insure Committee members are current on University procedures for determining the ICR rates and current on issues regarding how those funds are used.

Professor Sackett introduced Marilyn Surbey, ORTTA, and Professor Mark Brenner, Graduate School. Ms. Surbey started her slide presentation by describing how indirect costs rate is developed. The first step is to take the University's financial statements and separate them into direct and indirect costs, she said. Direct costs are those that are specifically associated with a project or activity and can clearly be identified with the purpose of the project, she added. For instance, items such as salaries, fringe, supplies, equipment, and travel that are charged to a grant. Indirect costs, she said, are costs that cannot be identified with a specific project or activity. For example, operations and maintenance of buildings and grounds, central and departmental administrative expenses and research administration and library costs.

The rules that govern how the indirect cost rate is developed is OMB (Office of Management and Budget) Circular A-21. She said that the OMB has been revised several times and is currently undergoing a revision. The OMB contains the costs principals that govern educational institutions, it defines what is an allowable and non allowable cost and it provides the methodology for developing the indirect cost rate. The document is very ambiguous, she said, and has lead to yearly disputes between auditors and universities for many years.

The indirect cost rate is a negotiation process. The University negotiates its indirect cost rate with the Department of Health and Human Services (DHHS). The two agencies that negotiate indirect cost are DHHS and the Office of Naval Research. As a side, she reported that Stanford has the Office of Naval Research as their negotiating office.

Professor Sackett asked how decisions are made regarding the allocation of the indirect cost? Ms. Surbey responded that there is a historical component to it. At one point in was based on your predominance. A notable point, she said, is that the O&R are much easier to negotiate with and tend to give higher rates then DHHS schools.

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Ms. Surbey moved on to talk about the components of the indirect cost rate. Building use, equipment use, operation and maintenance, libraries and general\departmental\research administration make up these components. Up until 1986 whatever you could negotiate for these components was the rate you would receive, she said. In 1986 a cap (26% of the direct cost) was placed on the administrative components. The University of Minnesota calculates approximately 21% for administrative components.

Ms. Surbey discussed each of the components and how they are computed.

Building Use is computed by taking 2% of the cost of the building, excluding any portion purchased with federal funds, and allocated on the square footage within each building. A University that has a lot of new buildings will have a higher component per building use than one that has a lot of old buildings, she commented.

Equipment Use is 6 2/3% of the cost of the equipment, excluding any portion purchased with federal funds. This is allocated on the square footage within each department.

Operations and Maintenance is one of the larger components at this institution, Ms. Surbey stated. Operation and maintenance include the expenditures by the Physical Plant and Operations Department. Again, this is allocated on the square footage of the department.

General Administration expenditures are for the executive management and administrative offices which includes the President's Office, Vice President's Offices, Business Services, Attorney's Office, and Auditing Office. They are allocated on the total direct cost within a department.

Departmental Administration are the expenditures incurred by the Deans' offices and the academic departments for the administrative and support services that benefit common or joint departmental activities. A special cost study determines the administrative costs within the departmental accounts. This is allocated on a modified total direct cost basis.

Research Administration are expenditures incurred by a separate organization established primarily to administer sponsored projects and is allocated on the basis of the expenditures in the accounts administered by that office.

Library expenditures are made in support of and for the operation of the libraries including the cost of new books, etc, and the cost of the administration. The allocation is based on the number of University professional staff and student FTEs.

The rate development process is complicated, but to simplify it the costs are segregated into the direct and indirect cost categories. Expenditure data from the University's financial statements may be used, Ms. Surbey said. Square footage data and use data, from Space Management, is also used. The rate is derived by summing the indirect cost that are allocated to research and dividing it by the total expenditures incurred by research projects. A 45.6 percentage rate was calculated last year, she commented. After several months of negotiations, the University came out with a 40% rate, she added. She identified the Stanford scandal was a primary reason for the drop in the rate.

Coopers and Lybrand, an outside firm, were hired to come in and help evaluate areas that needed to be improved in order to get a higher indirect cost rate. Coopers and Lybrand suggested: 1) a space study that incorporates the A-21 definitions; 2) depreciate the buildings and equipment instead of taking the use allowance; 3) currently the University accounting system does not separately identify costs considered unallowable by the federal government, therefore, we have had to "scrub" which means a statistical sample must be taken without the unallowables before a rate can be done. In future years we will have to budget a separate account for those to avoid a statistical sample, she said.

Basically, Indirect Cost Recovery is a payback with expenditures already incurred, she said. The federal guidelines do not mandate how these funds have to be used. The only outside regulation is from the State which mandates that the University use the indirect cost recovery for research support.

Ms. Surbey informed the group that on December 9, the OMB came in with a major revision to A-21. A very short period of time was given for comments regarding the revisions. The revision said that certain categories of cost had to be either direct or indirect - they could not be both. It defined all administrative and clerical salaries as indirect cost, which would mean that you could not have any clerical or administrative salaries on a research grant - those positions would have to be supported by the institution. This is not a minor issue. Ms. Surbey said that a very "quick and dirty" calculation was done and that the amount of dollars needed to support salaries alone, not counting fringe, would amount to approximately $10 million.

The second part of the revision pertains to use of rooms. It says that if there was any joint use of a room that it had to be allocated on institution wide salaries and wages. As an example, she said that if a research lab is used by an undergraduate for two hours a week, it would be automatically defined as joint use space - it would no longer be used as a research lab 100%. The result would be a lower ICR rate.

One member inquired whether the institution(s) were responding. Professor Brenner said that the major associations wrote strong statements to the director of OMB. The University of Minnesota wrote as well. It was hoped that each institution would write a letter and that it would make an impact. Professor Brenner pointed out that the rule changes do not state any implementation date. One member commented that the issue of staff and supplies would be the most immediately devastating. The end result could mean that some programs would have to be closed.

The attention of the Committee was turned to Professor Brenner who continued the discussion regarding ICR. He pointed out that ICR funds must support research or those activities that support research. He distributed materials outlining the Research Support Fund budget for 1993 as well as the FY93 college allocations. He walked the Committee through much of the document. He began by describing the various components of the Research Support Fund (RSF). Referring to a pie chart, Professor Brenner went on to discuss the following:

<u>State Offset 16%:</u> This is the part that is going back to the state, he said. It is currently 6.5 million dollars. He explained that the institution is allowed to keep all of the indirect that it earned, less 6.5 million. The state does not keep a percentage, but a rather a fixed amount.

<u>Return to Managing Units 2%:</u> These are units that manage themselves, he said. For example, the Hormel Institute and the Gray Fresh Water Biological Institute, are research activities off campus that have to maintain their own facilities.

<u>System Wide Activities 23%:</u> These include the operation of ORTTA, VP Research Office, the Graduate

School Grant-in-aid Program, Networking Costs (the ongoing activity of expanding), computer time (for faculty), the departmental costs of Radiation and Environmental Health, isotope handling (is now rolled into the main item), cost of the disposal of waste material, technical shops (currently being reviewed), Research Animal Resources, Business Office (under review to determine whether this item will be phased out), and, a one time shot for the cost of the construction of a waste facility at Duluth.

Campus Wide Activities 9%: The largest share of the allocation goes to the Library - this year approximately half of the acquisition budget will be contributed. Professor Brenner commented that there has been discussion in the past, by the Research Committee, whether it is appropriate for research dollars to be paying that much or if the institution should contribute to a greater extent.

He said that there is a need in the coming budget year to trade some dollars with the campus wide activities fund with the O&M budget. The reason for trading dollars is because of the increase cost for fringe benefits for grad. assistants (the rate going from 11 to 34%). To soften the blow, indirect cost will not be collected on grad. assistants.

Professor Brenner spoke briefly on the debt service for capital expenditures. Public institutions have the responsibility to pay 1/3 of the debt service. If the space is constructed as a research space, the research support fund supports it. Discussions are being initiated as to how those funds ought to be allocated. As an example, the basic Science and Biomedical Engineering Building, has been identified as being a 100% research space building. The debt service for the first year on that building is roughly 2.4 million dollars. Is that the total responsibility of the research support fund or not? He said that he argues that it shouldn't be because all of the faculty are expected to do scholarly activity before we ever had sponsored grants - to the tune of 50/50, so that all space operational maintenance funds have a responsibility of sharing the cost. He indicated that there is some support for this argument, but there needs to be an agreement on what the split should be. His concern is that if we continue in the current direction, within ten years the fund would only be able to handle debt service.

Formula Distribution: Professor Brenner said that there are two components. One, the component to help offset the cost of departmental/administrative as they directly relate to research. A specific example, but not exclusively, is the cost of handling effort certification, an activity required by departments. Another issue is how collegiate units use the money. In some units the Dean keeps a piece of it and based on the actual earnings of the department returns dollars back to the department. In other units, the Dean retains all of the dollars and distributes them as he/she feels appropriate. Typically, he said, these dollars are used for setups and matches, and in some cases small seed grants. The bulk of the money is used for setups.

Referring to the document, the formula is based on the rolling three year average of the indirect cost expenditures of each of the units, he said. There are two kinds of rolling three- year averages, he pointed out. The net ICR that is earned by the unit is returned and the rolling three-year average of that amount. A couple of units have been "zeroed out," he said. They were given more than they earned, therefore, they don't get a piece of the action. A separate calculation of the average without the match deduction is done to give dollars back to cover administrative costs. Regardless if they are getting dollars back or not, he said, they have real expenses related to the gross amount of grant activity. Referring to the graph, he cited the Institute of Technology. The total grant activity for I.T. was 19.3% - because of the matches they received, the formula was 16.5%

Block Grants: Block Grants are the creation of the Keller administration, Professor Brenner said. They are intended to provide flexible dollars to Deans or Vice Presidential units to manage for the purpose of research competitiveness in their units. They are discretionary dollars available to them for matches and setups, or seed money. The amount to the unit varies depending upon their activity. He reviewed the areas that receive Block Grants.

Professor Brenner briefly commented on the various centers under the Vice President for Research.

Included in this budget, he said, is 1/2 million dollars for available matches that have come along during the year. This is the first time that there has been a line item to handle such requests. Because it has worked so well, Professor Brenner said that he anticipates that they will continue doing it this way. He added that we have to stay competitive, but we can't fund everything. You have to have a way to set priorities and the way to do that is to have a defined pot, he concluded.

Referring to the last page of the document, Professor Brenner asked the members to look at the section called "rent." He pointed out that from 1992 to 93 we went from roughly 2 million to 2.8 million dollars in rent expenditures. This shows that we are becoming a supporter of more an more off campus activities because we have not had enough construction to accommodate research activities. Research activities have been growing on an average between 8 and 10 percent, he said.

The way the budget operates is that the dollars are spent the year they are earned. The dollars are allocated on July 1 and are earned during the year. What is difficult about this, he said, is that the income is projected on a percent of growth on the current year's activity, but the current year is not closed out. Therefore, it is done on a two year projection.

The good news, he reported, is that fiscal year 1992 ended with more funds than anticipated. They closed the year with 1.5 million dollars over budget. The growth continues to be higher than budgeted for, he concluded.

Professor Brenner reported that he is chairing a an administrative committee charged to study the request from Facilities Management for operational dollars.

Professor Sackett thanked Ms. Surbey and Professor Brenner for their informative presentations and their efforts.

The Research Committee will meet on February 18, 11:30 - 1:00 p.m., 238 Morrill Hall and March 4, 9:00 - 10:30 p.m. The April and May meeting are undecided.

- Vickie Courtney

University of Minnesota