

## The University Of Michigan and the OMB Proposed Cap on Administrative Components of Indirect Costs

\*\*\* The OMB proposed cap of 26% to administration in Circular A-21 could deal an immediate and severe financial blow to the University of Michigan. This action would cost the University over \$8 million in each of the next 3 years, for a total of close to \$25 million.

\*\*\* The University of Michigan would lose more than any university in the nation. The University of Michigan, alone, would lose up to 10% of the total amount trimmed from all universities in the country.

\*\*\* The University recently agreed with HHS to retain our previous 59% indirect cost rate in 1991, and drop it to 57% in 1992, and 56% in 1993. An immediate imposition of this proposed cap would conflict with the written agreement between the University and HHS, coming as a result of several months of negotiations.

\*\*\* Of the University's 59% rate, approximately 35 points are due to administration. The University's relatively high administrative rates are due to the large amount of biomedical research undertaken and the inclusion of unique, nationally known research institutes in our rate. For example, the independently administered Institute for Social Research (ISR) conducts the much-used survey on consumer confidence.

\*\*\* A loss of this magnitude would seriously diminish the University of Michigan's capacity to maintain existing research efforts and invest in future endeavors contributing to the economic vitality of the state of Michigan. This loss of reimbursement would make it very difficult to sufficiently cost share on major center proposals, such as the present site competition for the National Advanced Driving Simulator. Additionally, university investment in research instrumentation and seed money for young investigators could be severely curtailed.

## Fixing the Indirect Cost Recovery Process

\*\*\* The University of Michigan agrees that changes to OMB Circular A-21 are needed. The cost reimbursement principles embodied in A-21 have been developed over decades, and have been in part responsible for the U.S. university science system that is the envy of the world. Therefore, any changes to A-21 should be very carefully made in a reasoned process, so as to avoid undue harm to the academic research and education enterprise.

\*\*\* Audits of universities underway nationwide have not yet been completed, and therefore the extent of the problem or the nature of the most appropriate fix is not yet known.

\*\*\* The University of Michigan suggests that OMB delay it's publication of its proposed rule change, and/or extend the time for comment on the change once published in the Federal Register, in order to allow time for the audits to be completed.

\*\*\* The University also suggests that eventual changes avoid the use of formula fixes that could harshly impact institutions, particularly those that have not been found to have abused the system.

\*\*\* Finally, it is essential that institutions be given adequate time to adjust to any major changes in A-21, for example, by allowing them to complete existing agreements and then adapting to modifications in the next negotiation cycle. Abrupt changes will almost certainly do irreparable harm to some institutions--including the University of Michigan.