

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

### Specific Impact on the University of Michigan

\*\*\* 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 could 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 administrative rates differ from the national average due to the cost effective manner in which we pool our secretarial and administrative expenses, 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.

## General Comments on Modifying the Indirect Cost Negotiation Process

\*\*\* The University of Michigan agrees that changes to OMB Circular A-21 are needed. However, it would be a very bad mistake to diminish the institutional flexibility allowed under A-21. This has been one of the key reimbursement principles developed over the past several decades, enabling the rich diversity of universities to flourish in their unique ways. This U.S. university science system has been the envy of the world. 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 its 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. Attempting to standardize the nation's universities by rigid formulations of the regulations could weaken the nation's research effort. Additionally, such fixes could harshly impact institutions 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.

## Why is the University of Michigan's Indirect Cost Rate Related to Administration above the National Average?

\*\*\* Unlike many other universities, the UM charges most of its secretaries and administrative staff to pooled indirect costs, rather than to direct expenses on a project by project basis. We have found it more cost effective, and thus cheaper to all our sponsors, to have the costs shared in this manner.

\*\*\* The university's administrative expenses include two unique, nationally known research institutes which are separately administered, but incorporated into the overall administrative components (Sponsored Projects) of the UM rate -- the Institute for Social Research, and the University of Michigan Transportation Research Institute. These two institutes contribute roughly 6% to our general administrative rates (34%).

\*\*\* The University's medical center, which conducts almost half of the research on campus, contributes a disproportionately large share of indirect costs. Like other medical schools, the UM Medical School's administrative costs are higher since it tends to be more research intensive, have a far greater amount of space devoted to research, and have a higher faculty/med student ratio than other units on campus (with many more of these students involved in research).. The medical center attempts to take care of the bulk of administrative activities centrally, thus freeing individual faculty to divide their time among research, instruction and seeing patients.

\*\*\* The UM is a leader in information technology. The Information Technology Division, charged in part to administration, is combining the talent and the state of the art equipment to develop and put in place interactive computer systems to enable researchers from different disciplines and colleges to work together.

\*\*\* The University's indirect cost rate approaches the real indirect costs associated with research, as do the rates of many of the nation's private universities. In developing our indirect cost proposals, we must balance carefully between charging the federal government the lowest rate we can afford, with our responsibilities as a public university to our students and the citizens of the state of

Michigan. We believe that our present rate serves our varied constituencies quite well. We have chosen not to charge the federal government a higher rate, although we believe we could fully justify doing so.