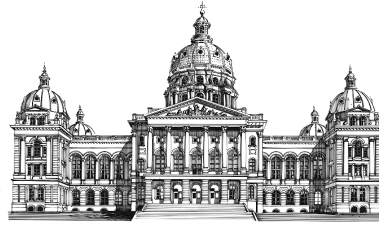

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December 20, 1993

Indirect Cost Reimbursements Received By The Board of Regents

ISSUE

Informational review of indirect cost reimbursements (ICR) at Board of Regents (BOR) institutions. The ICR are funds available to the department or agency receiving a federal grant, for costs including administration, accounting, maintenance, and utilities related to the grant.

AFFECTED AGENCIES

State University of Iowa (SUI)
Iowa State University (ISU)
University of Northern Iowa (UNI)

CODE AUTHORITY

Section 262.9(8), 1993 Code of Iowa

BACKGROUND

Each of the 3 Regent institutions employ faculty and staff who receive grant awards from various federal departments and non-federal sources. Each institution contracts with the federal Department of Health and Human Services (DHHS) for a percentage of the centralized costs associated with conducting the work of the grant, such as administration, payroll, and maintenance. In this instance the DHHS is referred to as the cognizant agency for the indirect cost reimbursement process. Usually the percentages contracted with DHHS carry-over for grant contracts with other federal departments, except for the Department of Defense, the Department of Agriculture, and the Department of Education job training grants.

Often the indirect cost percentage received by the institution is part of the grant award amount. For example, if a grant award for \$102,425 is announced for a faculty member at ISU for an Economic Development Administration University Center Program, the 42.0% that ISU is entitled to for indirect costs comes from the grant award amount. (A total of \$102,425 is received of which \$43,019 is the indirect cost reimbursement.)

However, for other grant awards, the SUI would receive 45.0% for indirect costs of the

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\$105,077 grant award received for Regulation of Pronuclear Development while the grantee would receive the entire grant amount (A total of \$152,362 is received which includes \$47,285 in indirect cost reimbursements.) Costs for one-time equipment and subcontracting more than \$25,000 are not eligible for the ICR in addition to the grant award.

In 1989, the Board of Regents contracted with Peat Marwick to study the indirect cost reimbursement process at SUI and ISU. For the SUI, Peat Marwick made 13 recommendations to either improve the process or increase the amount of ICR. Of the 13, the SUI implemented 10 of the recommendations and studied the other 3 but determined that the recommendations were not cost effective. For ISU, Peat Marwick made 5 recommendations and ISU implemented 3 and determined that 2 were not cost effective. A similar study was not conducted for the UNI.

CURRENT SITUATION

The institutions contract with the federal government for a multiple-year period in most cases. Iowa institutions favor this predetermined fixed rate method, which results in less administrative work, more certainty of grant amounts for researchers, more stability in the budgeting process, and more expeditious closeout of the contract when the work is completed. The alternative, the provisional method, results in the federal government changing the previous years' possible allowable indirect costs with any changes in amounts reflected in later years after cost calculations take place. There are 2 components in the calculation of the indirect costs, the facility related component and the administrative component.

The facility related component includes use allowances for buildings and improvements, use allowances for equipment, and operations and maintenance related to the facility. The administrative component includes expenses relating to general administration, departmental administration, sponsored project administration, and library costs. A document entitled "The Cost Principles for Educational Institutions" is issued by the federal Office of Management and Budget. Periodic revisions of this document are issued which clarify or standardize changes or decisions recently made to the components involved in the calculation of the indirect costs. In many cases, the institution will contract with a consultant to assist the institution in the negotiation process with the federal government. A percentage for each component is negotiated, with the total percentage representing the indirect cost rate. Table 1 shows the ICR percentage of the contract with DHHS for FY 1993 for each institution.

Table 1

Institution	FY 1993 %
SUI	45%
ISU	42%
UNI	38%

According to the DHHS, FY 1993 ICR rates range from 37.0% at Utah State University to 83.0% at the Harvard Medical School. Lower rates for indirect costs can possibly be beneficial when competing for grant awards. This would result in more of the grant award actually being expended for the purpose of the grant. The institutions are allowed to expend the funds received from ICR for any budgetary item, independent of any relationship to the grant awards. The Iowa institutions utilize the available funds in budgeting independently, and do not necessarily correlate the amount of revenues from the nonrestricted ICR in budgeting decisions to the departments or colleges which may have generated the revenue.

Table 2 shows the amount of funds awarded to the 3 institutions from grants and contracts.

Table 2

<u>Institution</u>	<u>Source</u>	<u>FY 91</u>	<u>FY 92</u>	<u>FY93</u>
SUI	Federal	\$ 115,075,136	\$ 111,552,930	\$ 110,384,697
	Nonfederal	36,527,816	47,613,537	41,997,497
	Total	\$ 151,602,952	\$ 159,166,467	\$ 152,382,194
ISU	Federal	\$ 94,449,739	\$ 110,881,388	\$ 112,056,079
	Nonfederal	32,578,045	29,847,346	36,909,872
	Total	\$ 127,027,784	\$ 140,728,734	\$ 148,965,951
UNI	Federal	\$ 9,411,067	\$ 14,765,631	\$ 13,182,960
	Nonfederal	2,980,703	2,553,190	3,563,815
	Total	\$ 12,391,770	\$ 17,318,821	\$ 16,746,775
Total	Federal	\$ 218,935,942	\$ 237,199,949	\$ 235,623,736
	Nonfederal	72,086,564	80,014,073	82,471,184
	Total	<u>\$ 291,022,506</u>	<u>\$ 317,214,022</u>	<u>\$ 318,094,920</u>

Each of the institutions are within a different contractual timeline. For FY 1994, the SUI is in the 2nd year of a 5-year contract, ISU is in the 4th year of a 4-year contract and will begin renegotiating the contract in December, and the UNI is in the 2nd year of a 3-year contract.

The indirect cost reimbursement received by the institutions from the grant awards cannot be calculated from the amount of grant awards because:

- The percentage of ICR varies based upon the source of the grant award.
- The length of the grant award may span more than 1 fiscal year.
- The nonfederal sources typically do not allow for indirect costs.
- Institutions receive the ICR only after the funds are expended for the purpose of the grant.

Table 3 shows the amount of ICR received by each of the 3 institutions:

Table 3

Institution	Source	FY 91	FY 92	FY93
SUI	Gen. Univ Bdgt	\$16,308,797	\$17,498,062	\$18,579,591
	Restricted	5,888,549	6,533,428	6,102,284
	Total	<u>\$22,197,346</u>	<u>\$24,031,490</u>	<u>\$24,681,875</u>
ISU	Gen. Univ Bdgt	\$ 4,853,454	\$ 5,902,738	\$ 7,121,978
	Restricted	2,234,174	2,494,396	3,586,974
	Total	<u>\$ 7,087,628</u>	<u>\$ 8,397,134</u>	<u>\$10,708,952</u>
UNI	Gen. Univ Bdgt	\$ 336,939	\$ 445,551	\$ 646,342
	Restricted	0	0	0
	Total	<u>\$ 336,939</u>	<u>\$ 445,551</u>	<u>\$ 646,342</u>
Total	Gen. Univ Bdgt	\$21,499,190	\$23,846,351	\$26,347,911
	Restricted	8,122,723	9,027,824	9,689,258
	Total	<u>\$29,621,913</u>	<u>\$32,874,175</u>	<u>\$36,037,169</u>

As the BOR does not have a written policy pertaining to the use of indirect cost reimbursement, Iowa institutions are not restricted as to the use of indirect cost reimbursements received. In Virginia, the institutions are required to use at least 30.0% of the indirect cost reimbursement on general education and may use the remaining 70.0% on sponsored research programs.

Other than the Board of Regents, Iowa departments and agencies applying for and receiving federal grant awards are charged for indirect costs associated with the grant from other State departments such as the Department of Management, Department of Revenue and Finance, and the Department of General Services. These costs are subtracted from the indirect cost reimbursement amount allowed for the grants received by a department or agency. Previous to this action 3 years ago, a department retained the entire indirect cost reimbursement amount.

BUDGET IMPACT

This *Issue Review* is provided for informational purposes only. Of the funds received, 26.9% received by the institutions from ICR for FY 1993 were restricted and 73.1% were received without restrictions as to the expenditure of the funds. The institutions use the unrestricted ICR funds in conjunction with other general university budget revenues, such as State appropriations and tuition when determining budget allocations throughout the institutions.

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