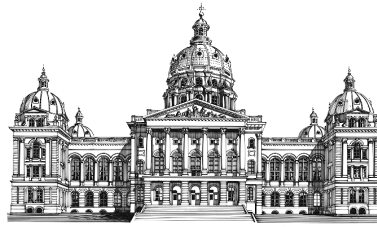

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Indirect Cost Reimbursements Received By Board Of Regents

ISSUE

An informational review of indirect cost reimbursements (ICR) at Board of Regents Institutions. The ICR are funds available to a department or agency receiving federal grants or other contracts, for costs related to the grants, including administration, accounting, maintenance, and utilities.

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

The 3 Regent Institutions employ faculty and staff that receive grant or contract awards from various federal departments and non-federal sources. Each Institution contracts separately with the federal government for a percentage of the centralized costs associated with the work of the grant, such as administration, payroll, and utilities. Typically, the percentages contracted with the federal government apply to grant contracts with most departments, except for the Department of Defense, the Department of Agriculture, and the Department of Education job training grants. These funds are discretionary and are placed in the Institutions' General University Budget, along with State appropriations, tuition revenues, and interest revenues.

The indirect cost percentage received by the Institution can either be an addition to the grant or contract award or a part of the grant or contract award. The calculation varies by the entity awarding the grant or contract and the purpose of the grant or contract. For example, a grant award of \$147,827 from the National Institute of Health was made to the SUI staff for the Synaptic Specificity in the Spinal Cord. The ICR for FY 1994 is 46.0% for the SUI. Therefore, the SUI received \$68,000 for the ICR in addition to the grant award, for a total of \$215,827. The SUI may use this money for purposes determined at the institutional level,

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subject to any restrictions placed under the grant contract. **Table 1** shows the amount of ICR received by each of the 3 Institutions broken down by restricted versus general budget categories.

Table 1
ICR Received by Institutions

Institution	Source	FY 1991	FY 1992	FY 1993	FY 1994*
SUI	Gen. Univ. Bdgt.	\$ 16,308,797	\$ 17,498,062	\$ 18,579,591	\$ 21,218,079
	Restricted	5,888,549	6,533,428	6,102,284	7,031,663
	Total	\$ 22,197,346	\$ 24,031,490	\$ 24,681,875	\$ 28,249,742
ISU	Gen. Univ. Bdgt.	4,853,454	5,902,738	7,121,978	7,350,923
	Restricted	2,234,174	2,494,396	3,586,974	4,214,891
	Total	\$ 7,087,628	\$ 8,397,134	\$ 10,708,952	\$ 11,565,814
UNI	Gen. Univ. Bdgt.	\$ 336,939	\$ 445,551	\$ 646,342	\$ 787,654
	Restricted	0	0	0	0
	Total	\$ 336,939	\$ 445,551	\$ 646,342	\$ 787,654
Total	Gen. Univ. Bdgt.	21,499,190	23,846,351	26,347,911	29,356,656
	Restricted	8,122,723	9,027,824	9,689,258	11,246,554
	Total	29,621,913	32,874,175	36,037,169	40,603,210

*FY 1994 data is an estimate.

The other method of calculation is to include the ICR as part of the grant or contract award amount. For example, ISU personnel received a grant from the National Security Agency for a multilevel security access mechanism. The grant awarded was \$99,620. The 44.0% received by ISU for ICR was part of the grant award, resulting in \$55,787 for the grant costs and \$43,833 for ISU for expenditure at the institutional level.

The appropriate ICR calculation process has been periodically reviewed at the SUI and ISU. The most recent in-depth review was conducted by Peat Marwick in 1989. The recommendations from this review were either implemented or determined not cost effective. The SUI determined that the recommendations relating to making components of building assets, allocating administrative costs of sponsored projects based on the number of active projects, and updating the space inventory system were not cost effective. At ISU it was determined that the recommendations relating to conducting a library study and conducting a utility cost analysis study were not cost effective. A similar Peat Marwick study was not conducted for the UNI. The recommendations which were implemented were incorporated in the data used for the most recent contract negotiations with the DHHS for the ICR percentages.

The Institutions do not have specific policies for the use of the ICR. The Board of Regents does not have a policy regarding the usage of the ICR. The Institutions have used the ICR for items related to the source of the funds, such as building costs, library, administration, and plant operations. Traditionally, the Institutions have not used the ICR for salaries or infrastructure-related items, even though the grants and contracts are used for salaries of personnel involved with a project.

CURRENT SITUATION

Contracting. The Institutions contract with the federal government for a multiple year period in most cases. This predetermined fixed rate method varies from the provisional method. The

provisional method results in the federal government changing previous years' possible ICR with any changes in the amounts reflected in later years, after cost calculations take place.

The staff at the Institutions in Iowa favor the predetermined fixed rate method as it results in less administrative work, more certainty of grant amounts for researchers, more stability in the institutional budgeting process, and a more rapid close-out of a contract when the work is completed.

There are 2 components in the calculation of indirect costs, the facility-related component and the administrative component. The facility-related component includes "use" allowances for buildings and improvements, 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. Although the ICR rate is based upon these items, the nonrestricted ICR received by an institution may be expended for any item. This nonrestricted ICR is placed in an Institution's General University Budget.

Each of the Institutions are within a different contractual timeline. For FY 1995:

- The SUI is in the third year of a 5-year contract.
- ISU is in the process of renegotiating a new contract after completing the final year of a 4-year contract in FY 1994.
- The UNI is in the final year of a 3-year contract.

The federal government issues documents specifying the components involved in the calculation of indirect costs. In certain cases, the institution may 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 ICR rate. **Table 2** shows the ICR percentage of the contract with the DHHS for FY 1994 for each Institution.

Table 2
Percentages of ICR for Regent Institutions

Institution	FY 1994 %
SUI	46.0
ISU	44.0
UNI	38.0

According to the DHHS, FY 1994 ICR rates range from 36.3% at the University of Rhode Island to 83.0% at the Harvard Medical School. Lower rates for ICR may be beneficial when competing for grant awards, indicating an efficient institution. The granting agency may note that more of the award would be expended for the purpose of the grant. **Table 3** provides comparative chart for other institutions:

Table 3
ICR From Various Institutions

Institution	FY 1994 %
University of Minnesota	40.0%
University of Illinois	54.7%
Purdue University	51.0%
University of Indiana	52.7%
University of Michigan	52.0%
University of Kansas	44.0%
University of Oklahoma	47.5%
University of Missouri	45.0%
University of Colorado	42.4%

Use of ICR Funds. The Institutions are allowed to use the nonrestricted ICR for any budgetary item, independent of any relationship to the grant and contract awards. The Iowa institutions utilize the available funds in budgeting independently, and typically do not correlate the amount of revenues in budgeting decisions to the departments or colleges which may have generated the grant or contract and the ICR. However, in certain instances, direct relationships do occur.

For example, during the process of the organizational structure of the office of the new Vice President for Health Sciences at SUI in December 1993, the sources for funding the new positions included a recovery through indirect costs. This is the exception and not generally the rule when it comes to specifying the actual use of ICR. Usually, any initiatives and any research enhancements compete on an equal basis for funds from ICR at SUI when budgets are developed.

The SUI operations manual indicates that the major portion of overhead income (ICR) is credited to the General University Operating Budget. The SUI does not set aside a percentage of ICR for an incentive program like the UNI or ISU. The SUI has incentive programs that support research at the University but the programs are not directly related to ICR. The programs receive funding from the General University Operating Budget which receives income from ICR. Also, the ICR may be one of the criteria used to determine who receives the incentive funds.

The UNI has an incentive calculation for the distribution of the ICR, which includes a gross allocation equal to: $\$100 + (\text{ICR} \times 30.0\%)$. This amount is then distributed 60.0% to the department(s) of the project director(s), 25.0% to the college(s)/division(s) of the project director(s), and 15.0% to the graduate college. Guidelines are given for the possible uses of these incentive funds. The remainder goes to the general uses of the University.

Iowa State University has a policy regarding contracts and grants, which provides that 15.0% of the indirect cost income is transferred to an incentive account which may be used for items within the purchasing policies by the principal investigator of the contract or grant.

Table 4 shows the amounts received by the 3 Institutions from grants and contracts. The highlighted rows indicate the ICR received in those same years from Table 3.

Table 4
Grants and Contracts Awarded By Institution

<u>Institution</u>	<u>Source</u>	<u>FY 1991</u>	<u>FY 1992</u>	<u>FY 1993</u>	<u>FY 1994</u>
SUI	Federal	\$ 115,075,136	\$ 111,552,930	\$ 110,384,697	\$ 120,391,771
	Nonfederal	36,527,816	47,613,537	41,997,497	60,373,395
	Total	\$ 151,602,952	\$ 159,166,467	\$ 152,382,194	\$ 180,765,166
	Total ICR	\$ 22,197,346	\$ 24,031,490	\$ 24,681,875	\$ 28,249,742
ISU	Federal	\$ 94,449,739	\$ 110,881,388	\$ 112,056,079	\$ 120,941,588
	Nonfederal	32,578,045	29,847,346	36,909,872	54,772,448
	Total	\$ 127,027,784	\$ 140,728,734	\$ 148,965,951	\$ 175,714,036
	Total ICR	7,087,628	8,397,134	10,708,952	11,565,814
UNI	Federal	9,411,067	14,765,631	13,182,960	13,820,061
	Nonfederal	2,980,703	2,553,190	3,563,815	3,680,625
	Total	\$ 12,391,770	\$ 17,318,821	\$ 16,746,775	\$ 17,500,686
	Total ICR	336,939	445,551	646,342	787,654
Total	Federal	\$ 218,935,942	\$ 237,199,949	\$ 235,623,736	\$ 373,979,888
	Nonfederal	72,086,564	80,014,073	82,471,184	118,826,468
	Total	\$ 291,022,506	\$ 317,214,022	\$ 318,094,920	\$ 492,806,356
	Total ICR	\$ 29,621,913	\$ 32,874,175	\$ 36,037,169	\$ 40,603,210

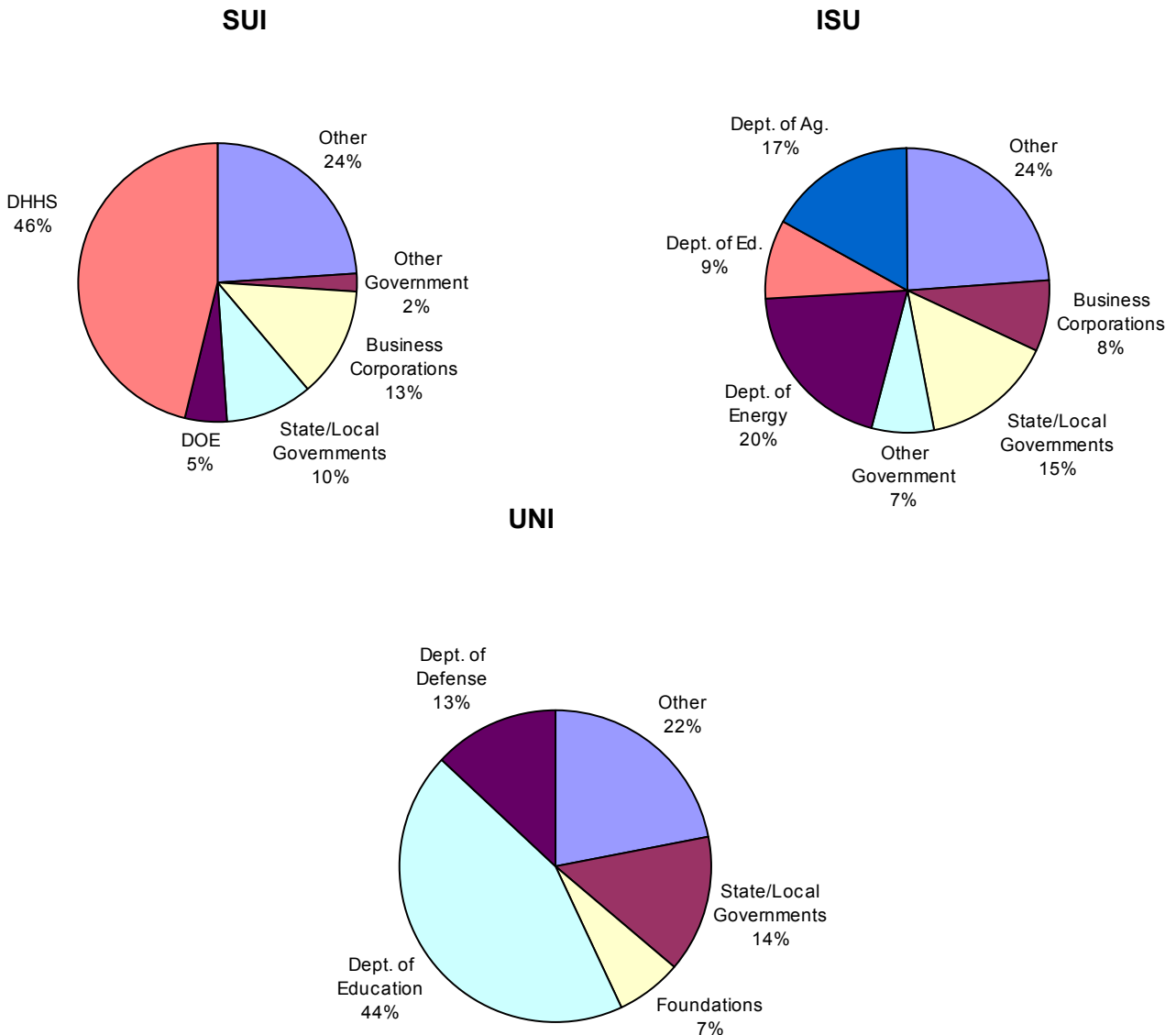
The percentage change in the amount of grant and contract awards received by the Institutions between FY 1993 and FY 1994 include an increase of 18.6% for the SUI, 18.0% for ISU, and 4.5% for the UNI.

Indirect cost reimbursements received. It is not possible to calculate the ICR amounts received by the Institutions directly from the grant or contract awards since:

- The percentage of ICR may vary based upon the source of the grant or contract award.
- The length of the grant or contract 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 or contract

Sources: The monthly reports received from the Board of Regents include summaries of the sources of grants and contracts as well as a listing of each grant or contract, personnel responsible for the receipt of the grant or contract, the amount and time period for the grant or contract, and the purpose. The major sources of the grants and contracts awarded to the 3 Institutions vary. **Graph I** illustrates the FY 1994 sources of grants and contracts by Institution.

GRAPH I
FY 1994 Sources



Other uses of ICR. The Iowa Board of Regents does not have a written policy pertaining to the use of ICR. Some states do have restrictions. For example, in Virginia the institutions are required to use at least 30.0% of the ICR on general education and may use the remaining 70.0% on sponsored research programs.

Unlike the Board of Regents, Iowa departments and agencies applying for and receiving grant awards are charged by the Department of Revenue and Finance for indirect costs associated with the grant. Examples of indirect costs include building space, archive space, first aid, functions provided by the Department of Revenue and Finance relating to payroll, and functions provided by the Department of General Services. Beginning in FY 1992, these Departments were required to transfer a portion of the ICR to the General Fund. This amount increased from \$3.3 million in FY 1992 to \$3.5 million in FY 1993. The preliminary estimate for FY 1994 is \$3.1 million.

ALTERNATIVES

Currently, the Board of Regents may expend the nonrestricted ICRs on any item at the Institution. Of the ICR received by the Institutions in FY 1994, 27.7% (\$11,246,554) were restricted in nature. The remaining 72.3% (\$29,356,656) were not restricted.

1. The General Assembly could direct the use of the unrestricted ICR funds:
 - For salary increases, to fund the portion of the increases for personnel costs associated with the grant or contract, thereby reducing the State appropriation necessary for funding of salary increases for employees funded by grants and contracts. The actual grant and contract awards are used for salaries of personnel involved with a project.
 - For the fire safety and deferred maintenance needs at the institutions, to reflect the Institutions' capital priorities. This would parallel with the reasoning related to the buildings and building costs purposes set forth in the negotiations for ICR with the federal government.
2. The General Assembly could require the Institutions to expend the increase in nonrestricted ICR from the previous year's amount in a certain manner. Since FY 1991, this has not been less than \$2,347,161 per year for the 3 Institutions combined.
3. Finally, the General Assembly could require the amount to be expended for certain purposes be based upon the amount of monies generated from the increase in the contracted ICR rate which increases from year to year. This refers to the percentage increase from year to year detailed in Table 2, which typically increases from year to year during the life of the contract.

BUDGET IMPACT

The State appropriations to the Institutions of the Board of Regents could be reduced by the amounts of the nonrestricted ICR received by the Institutions if required to be expended for specific purposes by the General Assembly.

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