

# Universities Discover That Simplicity Has Its Price

When the Office of Management and Budget (OMB) released its long-awaited proposed revisions to circular A-21 last week, it came as no surprise to find that simplicity and consistency had been invoked in virtually every change. After all, the labyrinthine rulebook, which the government uses to calculate how much research overhead it refunds to universities, has been cited as one of the causes of 3 years of indirect cost scandals. Rules that complicated invite error and abuse, intones a chorus of researchers, university administrators, and government officials. Given that kind of unanimity, you'd think everyone would be pleased with the proposed changes. But no: Some universities are now complaining that, in streamlining the regs, OMB may have thrown the baby out with the bathwater.

In fact, some of those universities are saying the proposed changes could have a powerfully damaging effect on research. Large private research universities such as Stanford, MIT, and Johns Hopkins estimate that the proposed changes, if they stick, may cost them tens of millions of dollars a year in refunds of legitimate indirect costs. In addition, they claim that a provision restricting how universities can recover the costs of tuition they provide free to graduate students who work on research projects could cut the number of graduate students in science and engineering at such schools by as much as 25%.

The universities have until 9 January to register their complaints. But, given that the A-21 revisions have been more than a year in the making and the subject of innumerable meetings between agency officials, university representatives, and a special government task force set up to consider the issue, they can hardly be considered flexible at this date. What is more, OMB is racing to get the regulations out before President-elect Bill Clinton and his team take office and potentially freeze pending regulations for further review. That gives OMB only 12 days after the end of the comment period to consider and incorporate any changes. As one official puts it, "A major rewrite probably isn't in the cards."

Overall, the new A-21 makes few revolutionary changes. Instead, it continues the trend of prior interim revisions. In particular, the new draft sticks with a provision, introduced last year, that caps administrative in-

direct costs at 26% while leaving facilities costs subject to negotiation. And it retains the much-criticized division of auditing responsibilities between two very different agencies—the Office of Naval Research (ONR) and the Department of Health and Human Services. The reason, say those involved in the negotiations, is that ONR, widely considered the more lenient of the two, wasn't prepared to relinquish its role and the universities it audits weren't anxious to give up a good thing.

But the devil, as they say, is in the details. In simplifying and clarifying the accounting rules, OMB is proposing to put a halt to accounting practices that have saved big research universities as much as \$100 million a year. Perhaps the most expensive change,

**Selected 1993 Indirect Cost Rates**

Institution	Rate
Johns Hopkins University	69%
Columbia University	67%
Cornell Medical	63%
University of Pennsylvania	63%
MIT	60%
Washington University	58%
U. Texas/Southwestern Medical Cntr.	49%
University of Michigan	47%
Georgia Tech	45%
University of Hawaii	32%

Source: Office of the Chief of Naval Research and HHS Division of Cost Allocation

according to Robert Byer, Stanford's dean of research, is OMB's proposal to put the salaries of all administrative and clerical staff in the research departments into the indirect cost pool. Previously, those salaries have been fully recovered as part of the direct costs of the grants on which the employees worked. The change may put the expenses into a more natural accounting category, but for an institution like Stanford, which is already over the 26% cap on administrative costs, those salaries would become essentially unrecoverable. Byer estimates that the one-sentence change could cost Stanford alone \$17 million a year.

Another change in the proposed revisions is likely to be felt most by engineering and science graduate students at MIT, Caltech,

Columbia, and Stanford. Those four universities have traditionally mixed the tuition of students working on research projects into the benefit pool for all university employees. That way, researchers could hire more graduate students than their grants could actually support, with the university as a whole underwriting the extra expense. Under the OMB proposal, however, all universities will have to phase in a system by 1997 in which they charge such tuition costs directly to the project the students are working on. At the four universities where the tuition costs were distributed, this would mean fewer jobs for graduate students—and thus fewer students. Postdocs, who are paid little more and carry no tuition overhead, would likely take their place in the lab (*Science*, 28 August 1992, p. 1201).

Elsewhere in the proposed revisions, OMB floats the trial balloon of a two-tier rate for administrative costs. Universities claiming 26% would have to justify their expenses to their auditing agency, but if they instead chose to claim only 24%, they wouldn't have to go through the accounting to prove it. Such a "threshold" is meant to encourage a university to take the lower figure in exchange for even greater savings in accounting expenses. But with only a 2% margin—far less than it would cost most universities to justify the higher figure—the threshold choice is virtually no contest. "It makes 24% the effective cap," says Reed Brimhall, director of Stanford's Office of Government Cost and Rate Studies. OMB may, however, simply be floating a proposal that it hopes will be shot down. The agency's Jack Sheehan says OMB is no fan of the scheme, but included the threshold option in the proposed revision because several universities had requested it. But Stanford, for one, is still negotiating its indirect cost rate and had been hoping for something more generous, such as a 26% threshold and 30% cap. As it is, the threshold appears likely to be a "nonstarter," Sheehan says.

Yet despite the high-decibel protests of a few large research universities, many other institutions are only too happy to see a conclusion to 3 years of indirect cost uncertainty, regardless of the details of the revisions. State universities and schools that are not primarily research oriented have had to live under the same indirect cost cloud as Stanford, even though their rates are typically well below the caps. And they, too, have been frozen in accounting purgatory for the past few years as A-21 became the focus of government investigations and threatened reforms. As a result, they have been among those pushing hardest to get the A-21 revisions out before a new administration shuffles the deck again, says OMB's Sheehan. Given the pain this issue has already inflicted on the university community, many administrators are now ready to take their medicine and be done with it.

—Christopher Anderson