COMMENTS ON SPECIFIC PROPOSED REVISIONS TO THE COSTING CIRCULARS

Item 16 – Equipment

Comments:

Under the proposed revisions to part a.(1) and (2), the “original complement of low cost equipment” required to outfit a new facility / building would have to be capitalized-regardless of the cost. This would create a significant new administrative burden for universities - every time we had a new facility we would be required to capitalize, and more importantly, tag and track all the assets such as chairs / computers /tables, etc., regardless of cost. For some universities this might also be inconsistent with their financial statement treatment of these costs, requiring additional administrative effort to reconcile accounts.

In the revision to part b.(2), a sentence should be added at the end that states “Prior approval should not be required if the item of equipment was included in the approved proposal budget.”

Item 22. Interest

Comments:

Sections b.(1) is new, and has the effect of making currently allowable interest costs unallowable. May 8, 1996 was the date OMB revised the interest provisions of A-21 to establish more rigid criteria for reimbursement of interest costs, but the 1996 revision did not eliminate the allowability of interest costs incurred prior to that date. Unless the intent of OMB was to refer to July 1, 1982, this would be a major policy change.

Other Suggested Revisions for this Section:

We recommend that OMB eliminate the requirement in J.22.f.(1), with its corresponding reference to the requirements of Circular A-110, for a lease-purchase analysis for facilities costing more than $500,000. First of all, leasing a major research facility is almost never an option – new buildings being constructed by universities have special requirements that cannot be met by existing commercial property, even if such property existed. Second, universities have incentives to find the lowest cost options because the
federal government pays only a percentage of the total facilities costs. Finally the lease alternative is not likely to ever be less costly than purchase because of three factors, i.e., leases include profit, property taxes, and have a high cost of capital. Universities are nonprofit organizations, exempt from property taxes, and have access to cheaper capital through tax-exempt debt, therefore making the purchase alternative more economical.

We also recommend OMB eliminate the requirement in J.22.f.(5) to conduct a monthly cash flow analysis for debt arrangements over $1 million where the institution makes an equity contribution of less than 25%. This is a detailed labor-intensive administrative effort that must be done annually for the life of the asset, for which the end result is either no change to amounts charged to the government, or amounts that should be considered immaterial given the impact on F&A rates.

**Item 31. Pre-Award Costs**

**Comments:**

The revised wording is confusing and contradicts authority universities currently have under OMB Circular A-110. We recommend the following wording:

b.(1) Pre-award costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and the costs are necessary to comply with the proposed delivery schedule or period of performance.

b.(2) Pre-award costs are allowable only with the written approval of the awarding agency.

b.(3) If the entity is subject to OMB Circular A-110, prior approval is not required unless required by the Federal agency through a condition of the Federal award or program regulations.

**Item 48. – Travel Costs**

**Comments:**

A new subsection (e) is added that states that “Direct charges for foreign travel are allowable only when the travel has received prior approval of the awarding agency. Each separate trip must receive such approval.” Again, under authority provided in OMB Circular A-110, most awarding agencies have waived the prior approval requirements for foreign travel. Therefore this new requirement would be a step backward in administrative streamlining.
Item 24. – Idle Facilities and Idle Capacity

Comments:

This section is new to A-21 but is currently contained in A-87 and A-122. Of particular concern is the definition and restrictions surrounding “idle capacity” in Section 24.a.3., which seems oriented to the manufacturing environment. The insertion of this section into A-21 will enable federal F&A rate negotiators to develop their own positions on what constitutes “idle capacity” which could result in disallowances, and further complicate the space allocation process. We believe that existing language in J.12 is sufficient to determine allowable costs – i.e., “Institutions may be compensated for the use of their buildings, capital improvements, and equipment, provided they are used, needed in the institutions’ activities, and properly allocable to sponsored agreements.”

Item 29. – Patent Costs

Comments:

This is a positive change. It recognizes in A-21 the standard established in the Bayh-Dole Act that universities provide the federal Government with a royalty-free license, not title to an invention.

Item 34. – Proposal Costs

Comments:

The proposed change would apply the current language from A-87 into A-122, but the language in A-21 would not be revised. The new wording is clearer than current A-21 language and allows direct charging with prior approval of the awarding agency. We recommend this revision be incorporated in Circular A-21.

Item 37, - Recruiting

Comments:

The determination of allowable relocation costs has been greatly expanded and is very detailed and prescriptive. The current A-21 language may be too general, but revisions intended to streamline the principles should rely on establishing allowability criteria and the development of and adherence to institutional policy. We recommend that OMB use a framework similar to travel costs in establishing allowability for relocation costs.
Item 42. – Selling and Marketing Costs

Comments:

The second sentence of the revision that only applies to A-122 should also be applicable to A-21.

Item 44. – Specialized Service Facilities

Comments:

1. Motor pools have been added to the examples provided in section a. Although this may be a valid for some universities, other universities treat the motor pool as an auxiliary enterprise.

2. In section b.(ii), a new requirement is for specialized service centers to undergo rate review and adjustment no less frequently than “bi-annually” –this is twice a year. Should this be biennially, meaning once every two years? If the intent of the revision is twice a year, This would constitute a major policy change. We recommend reconsideration to a more reasonable time period, as such a requirement could add significant administrative burden for universities.

3. The proposed change eliminates the current language in section 44 e. that permits alternative costing arrangements when it is in the best interest of the government and is approved with the cognizant Federal agency. This is particularly troublesome in that it reduces flexibility and fails to recognize the real need to establish alternative costing arrangements for unusual situations. For example, this provision has been used to establish equitable costing mechanisms for those institutions that manage observatory facilities. We recommend that part e. be reinstated in the circular.

Item 29. – Meetings and Conference Costs

Comments:

The original language in A-122 allowed costs associated with “meetings and conferences”. The proposed change applicable to all three Circulars splits out “Costs of meetings and conferences, the primary purpose of which is dissemination of technical information”, making them allowable, but goes on to state that “Costs of meetings or conferences held to conduct the general business of the non-federal entity” are allowable ONLY for A-122 entities.

Currently in A-21, Section J28, provides that costs for meetings for the dissemination of technical information are allowable, but this is in the context of “Professional activity costs”. A-21 is silent on meeting costs to conduct general business, and so they were in
effect allowable in our administrative pools. The proposed change would take away that allowability for universities (and governments covered under A-87) by limiting it to A-122 entities only.

We recommend that OMB either remove the distinction between technical and general business meetings (revert to original A-122 language) or remove the “A-122 only” stipulation in the last sentence.

Item 41. – Scholarships and Student Aid Costs

Comments:

Agree – as stated in the preamble, this revision incorporates the OMB clarification on tuition remission costs.

Other Issues:

The OMB clarification referred to in revising cost item 41 on student aid also included important language regarding the proper treatment of certain types of cost sharing, and we recommend that clarifying language be added to the appropriate section of the circular.

We also recommend that OMB eliminate the requirement in Section J.12.f.(1) to provide an assurance that the depreciation amount recovered through the F&A rate be reinvested to acquire or improve research facilities. This requirement is unnecessary, inappropriate, and misrepresents the F&A rate process. F&A payments are partial reimbursements for costs already incurred to support the conduct of research. While universities do use some of the F&A cost reimbursements to acquire or improve research facilities, requiring this assurance not only gives the false impression that F&A payments are a source of additional revenues that must be strictly controlled, but also inappropriately shackles an institution’s investment decisions.

In September 1997 OMB clarified a previous revision to the Circular, stating that provisional F&A rates do not meet the definition of a negotiated rate for purposes of determining future year funding of F&A costs in federal awards. We recommend this clarification be included in Circular A-21 Section G.7. We have already encountered situations where federal grant officials were unaware of the clarification and used provisional rates inappropriately in setting future year funding amounts, requiring unnecessary time and effort for institutions and grants officers to resolve and re-issue award notices.