Mr. Gilbert Tran  
Office of Federal Financial Management  
Office of Management and Budget  
Room 6025 New Executive Office Bldg.  
Washington, D.C. 20503  

Subject: Proposed Revisions to OMB Cost Principles: Circulars A-21; A-87 and A-122  
(August 12, 2002, Federal Register Notice)  

Dear Mr. Tran:

On behalf of the 150 research-intensive universities in the Council on Governmental Relations, I provide comment on the proposed revisions to OMB cost principles, with particular focus on revisions that would affect Circular A-21. We have previously expressed our support for the P.L. 106-107 initiative (letter dated March 19, 2001) and for updating OMB Circular A-21 (letter dated July 3, 2002). COGR has a long-standing interest in and a commitment to streamlining all aspects of the financial and administrative management of federal awards.

The comparison of the cost principles in the three circulars has initiated a lively discussion in our community. In reviewing OMB’s proposed changes, we find certain areas in which the revisions will provide some clarity. However, after comprehensive assessment, we conclude that the current OMB proposal to streamline the cost principles is reaching too far and clearly crosses over into the area of policy change. We strongly object to the changes proposed to a number of key cost principles. It may be that this well intended initiative has not received the right degree of consultation and we urge OMB to withdraw it for the present.

OMB has referenced P.L. 106-107 as the framework for streamlining the cost principles. The statute requires the federal agencies to streamline their pre and post award administrative requirements, in order to provide better services to the public and to relieve the public from unnecessary variance between agency practices. In this context, OMB believes that it is useful also to review the cost principles underlying Federal awards to ensure that they are current, consistent and appropriate for covered recipients. This is a reasonable position and could be viewed as an extension of the statute to “further its objectives”.

However, we are concerned that instead of simplifying the cost circulars, OMB is attempting to contrive a uniformity with three very different constituencies. We believe that the State and local governments, the independent research institutes and the university community are far too
different from one another to operate well under uniform cost principles. We suggest that a better way to achieve the goals of currency and appropriateness would be a review of each circular separately, in cooperation with the respective constituency. After successful completion of such a process, one might one consider the relationship with the cost principles of other constituencies.

OMB specifically states that its mission does not include adding restrictions or modifications to current requirements. However, restrictions and modifications have been introduced into A-21, which amount to significant policy changes. We discuss these in detail in the appended pages. For the universities, the new prior approval requirements such as J.31 Pre-award Costs and J.46 Foreign Travel Costs are of particular concern. They turn back the clock by eliminating administrative simplifications, which were introduced a decade ago based on proven assessment of the benefits to the government and university research partnership. Other policy changes will impact current practice in financial systems, requiring changes that will be unnecessarily disruptive and costly with respect to rate negotiations and audit. Examples are J.16 Equipment Costs; J.22 Interest; J.24 Idle Facilities; J.37 Relocation/Recruiting and J.44 Specialized Service Facilities. One additional negative outcome is the blurring of distinctions between grants and contracts, which operate under separate administrative requirements.

Since OMB does not provide explanations, the appropriateness of certain revised provisions in the Circulars for their respective community are hard to determine. For example, it is not clear why OMB has not allowed certain types of costs for universities, which the other two constituencies are allowed to claim. Examples are J.34 Proposal Costs; J.42 Selling and Marketing Costs and J.29 Meeting and Conference Costs.

With respect to coverage, A-21 has served the government well. There is no evidence that the absence of some of the newly introduced cost principles has worked to the detriment of the government. We have previously suggested a review of A-21 for currency, consistency and appropriateness relative to today’s research environment. However, we find that in these proposed revisions, OMB has limited its review. With respect to A-21, OMB has considered only section J, ignoring revisions in other sections that could significantly streamline the process, both for the government and for the covered universities. One item that is missing is the clarification of cost sharing, which OMB issued in January 2001. It is very important to the universities that this clarification be incorporated into the A-21 cost circular.

The universities in our membership object strongly to the changes proposed to A-21. In their view P.L. 106-107 was not intended to add more burden and make policy changes that will have an adverse impact. If finalized as proposed, these changes would affect the entire institution, including faculty, administrators and financial officers. They will do damage because they drive accounting changes, which will in turn require the government to make further amendments to existing requirements. They contravene the concept of simplification, by proposing to add back to the faculty prior approval burdens, which were eliminated by Federal agencies after lengthy review based upon detailed documentation of the reduction in burden provided by universities. Most importantly, ignoring the differences among research universities, independent research institutes and State entities denies the existence of fundamental differences between the structure, mission and needs of these diverse communities. OMB has previously recognized and respected these differences in its decision to keep the management circulars separate.
For all the above reasons, we urge OMB to reconsider its approach. Too many of the proposed changes will have unintended consequences. We hope that OMB will see the need to withdraw its proposal, once the negative impact of these policy changes on the universities is fully recognized. Our detailed comments illustrate that the added requirements affect not only our constituency but also the federal agencies that would now be required to adopt new, costly management procedures that have no value added. Given the current constraints in the Federal and State budgets, such considerations gain increased importance.

We continue to be supportive of the P.L. 106-107 streamlining of management procedures and hope that OMB will include the university community in the future work of its task forces.

Sincerely,

Enclosure

Katharina Phillips