Report on a Proposed 1997 Plan for Capturing Balances In the Indirect Cost Recovery (ICR) Accounts of University Researchers

Prepared by
the ICR Subcommittee,
Budget Committee of the Academic Senate

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September 8, 1997

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1. Background

In July of 1996, the administration announced a policy for capturing funds in indirect cost recovery (ICR) accounts that remain unspent for a three-year period. It announced this new policy in a footnote to the 1997 Budget Book presented for approval to the Board of Governors.[1] At that time, the administration reported to the Board of Governors that there was more than $10 million in year-end balances that could be used by the university to stimulate research. The implication of the administration's position was that a significant portion of the $10 million year-end balances was unspent for three-year periods. In the FY 1998 Budget Book, the administration has announced that it has reversed itself and has decided not to implement its 1997 plan.[2] It indicated, however, that it will monitor the ICR accounts and may present a modified plan at some future date.

The ICR funds at issue under the administration's 1997 plan are deposited in ICR accounts from overhead paid by granting agencies to the university. Various entities within the university -- individual researchers, departments, and other units -- held those accounts. The amounts deposited in those accounts are a percentage of the total overhead payments received by the university. Amounts not allocated to an entity are allocated to the General Fund. Overhead payments are shared among principal investigators (PIs), departments, schools and colleges, the research stimulation fund, and the General Fund, as shown in the following table.

[1] Wayne State University General Fund Budget, Fiscal Year 1997, pages 248 and 249..

[2] Wayne State University General Fund Budget, Fiscal Year 1998, page 308.

Distribution of Indirect Cost Recovery Amounts

Principal Investigators (PIs)	8.5%
Departments	10%
Schools and Colleges	15%
Research Stimulation Fund	20% if ICR revenues are greater than $5.2 million, otherwise 10%
General Fund	Remaining amounts (46.5% or 56.5%, depending on percentage contribution to research stimulation fund)

Source: University General Fund Budget, FY 1998, page 13.

The administration's 1997 plan specifically excluded the capturing of ICR amounts deposited in the research stimulation fund. For fiscal year 1995, those amounts totaled about $3 million. The administration's actual position, therefore, was that about $7 million of ICR amounts, rather than the $10 million figure provided to the BOG, were subject to capture. The research stimulation fund is administered by the office of the Vice President for Research.

Under the 1997 plan announced by the administration, funds would be captured from an ICR account if the funds had remained unspent for a three-year period, beginning with FY 1995. That is, capture would first occur on September 30, 1997 with respect to funds accumulated in FYs 1995-1997. Units could avoid capture of funds by spending down their accounts before the end of FY 1997.

Active accounts typically have revenues coming in and expenditures going out. To implement its policy, therefore, the administration had to adopt some accounting convention for determining how long an amount had remained in an account. It adopted a First In, First Out (FIFO) rule. Under that rule, amounts spent out of an account would be treated as coming from revenues that had remained in the account for the longest period. Assume, for example, that an account had an opening balance for FY 1995 of $50,000, made expenditures in that year of $45,000 and had new revenue during the year of $70,000. Its closing balance would be $75,000 ($50,000 + $70,000 – $45,000). Of that amount, $5,000 would be treated under the administration's plan as having been held in the account for at least one year ($50,000 – $45,000).

The Budget Committee objected to the substance of the administration's plan and to the lack of consultation with the Academic Senate. The committee instructed representatives to the BOG Budget & Finance Committee to express its concerns. After discussion at both the July and September 1996 meetings of the BOG's Budget & Finance Committee, the administration agreed to consult with the Budget Committee and to provide the committee with whatever data it had assembled in formulating its plan.

At its meeting on November 1, 1996, the Budget Committee of the Academic Senate appointed an ICR Subcommittee to review the announced policy. The members of the ICR Subcommittee are: Jim Woodyard, Chair (College of Engineering, 3137 Engineering Building, 7-3758, woodyard@ece.eng.edu); Ken Palmer (School of Medicine, 9374 Scott Hall, 7-5152, kpalmer@med.wayne.edu,); Ernie Abel, representative from the Research Committee of the Academic Senate (School of Medicine, 116 Mott Center, 7-1068, eabel@cms.cc.wayne.edu); and Mike McIntyre, ex officio, as Chair of Budget Committee (141 Law School Annex, 7-3944, mmcinty@novell.law.wayne.edu).

The subcommittee was asked to prepare a report for submission to the Budget Committee, the Policy Committee, and the Budget and Finance Committee of the Board of Governors. To avoid delays, the subcommittee was authorized to submit its report without obtaining the prior endorsement of the Budget Committee. At the time, the ICR subcommittee expected that the data needed for a full report would be forthcoming from the Budget Office. The substance of the proposed report was discussed with the Budget Committee in detail and a draft report prepared by the Chair of the Budget Committee was circulated to the members for discussion.

2. Preliminary Analysis of ICR Accounts

The ICR Subcommittee, the Budget Committee, and the Policy Committee of the Academic Senate initiated several communications with the administration requesting the information used in the formulation of the 1997 policy. Requests were also made by the subcommittee and by the Policy Committee and Budget Committee that the administration work with the subcommittee in the carrying out of a review of the announced policy.

At some point in the fall of 1996, it became apparent that the only substantial information that the administration had collected in formulating its announced policy was the aggregate year-end balances in the ICR accounts over the past decade. It had not assembled data on the age of the balances in the individual accounts. The subcommittee emphasized that the individual account information is required not only for evaluating the administration's proposal but also for its implementation. Additionally, the subcommittee pointed out that three-year data was essential because the administration's plan would capture funds in accounts only if the funds had been held for more than a three-year period. It asked the administration to obtain that information and provide it to the subcommittee in electronic form.

After lengthy discussions at meetings of the Budget Committee of the Academic Senate, with representatives of the Budget Office attending, the Budget Office came to appreciate the importance of obtaining expenses, encumbrances, accruals and year-end balances for each ICR account for a three-year period. The Budget Office agreed to provide the information to the ICR subcommittee for its use in reviewing the announced policy.

The FY 1995 ICR database in electronic form was received from the Budget Office in November of 1996. ICR account information for FY 1996 was transmitted in printed form to the subcommittee in December of 1996. The FY 1996 information was of no value to the subcommittee because it required manual keystroking of the data into a spreadsheet to carry out a meaningful analysis. The subcommittee did not have the staff to carry out the arduous task of searching through the printed documents to retrieve and keystroke the data for 823 accounts into a spreadsheet.

Partial information for FY 1996 was provided to the ICR Subcommittee in electronic form in mid-January 1997. The electronic form of the FY 1996 database did not carry forward to FY 1996 all the FY 1995 ICR accounts, nor did it include the account names for accounts set up during FY 1996. The subcommittee informed the administration that the electronic database for FY 1996 could not be used in the review until the omissions were remedied.

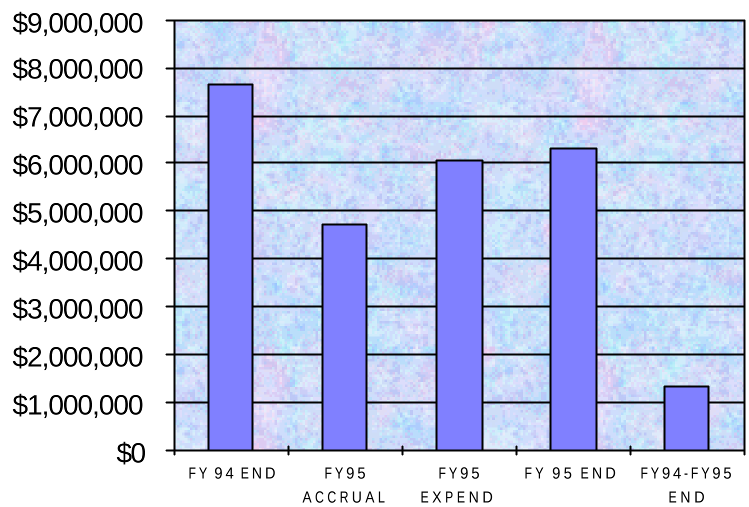
No ICR account information was available for FY 1997 because it would not close until October of 1997. The Budget Office indicated that the 1997 data would not be available until late in the fall of 1997 at the earliest. In lieu of the FY 1997 data, the subcommittee requested data for FY 1994 in order to have data for a three-year cycle. The Budget Office informed the subcommittee that the FY 1994 data were not available. Subsequently, the administration informed the subcommittee that it would not send the subcommittee any more additional ICR account information because the Academic Senate had failed, in its view, to provide advice in a timely manner. Moreover, the administration indicated that it would not work jointly with the Academic Senate in carrying out a review of the announced policy.

In November and December of 1996, the subcommittee analyzed the FY 1995 data and openly discussed the results at meetings of the Budget Committee and Policy Committee, with representatives of the administration present. In early 1997, the Chair of the Budget Committee shared with the administration a draft of the subcommittee's report. Members of the subcommittee informed the administration of the emerging results with the expectation that the Budget Office would develop an understanding of those results and their value in reviewing the announced policy. At no time did the administration communicate to the Academic Senate the results of any analyses that it may have had in progress.

One of the results of the ICR Subcommittee's analyses is shown in the figure entitled "FY 1995 Indirect Cost Recovery Accounts." The figure shows the total funds (year-end balances) in the 823 ICR accounts at the end of FY 1994 and FY 1995. It also shows the total expenditures and accruals in those accounts. The database did not contain information on the $3 million allocated to the research stimulation fund. That amount, along with the $7.82 million in the FY 1995 ICR accounts, made up the $10 million plus figure cited by the administration in its justification of its 1997 policy before the BOG.

Although the ICR accounts at the end of FY 1994 and FY 1995 contained, respectively, $7.82 million and $6.50 million, expenditures from those accounts during FY 1995 were about $5.46 million. Consequently, under the First-In, First-Out (FIFO) accounting method adopted by the administration in 1997, only $1.31 million of the FY 1994 year-end funds (last bar in the figure) are treated as remaining in the accounts at the end of FY 1995. That is, with only one year of ICR account data, the subcommittee's analysis shows that only $1.31 million was in the pool of funds to be aged for an additional two years before being subject to capture.

FY 1995 Indirect Cost Recovery Accounts



As discussed above, a year-end fund balance in an ICR account would not be captured unless the money represented by that balance had remained in the account for three years. It is expected that a significant portion of the $1.31 million that had remained in ICR accounts for one year would be spent before the end of the three-year period. Without the data for FY 1996 FY 1997, estimating with accuracy the aggregate amount that would be captured is not possible. The capture amount obviously could not exceed $1.31 million, and almost certainly it would be far less. A member of the subcommittee informally projected that less than $200,000 of the $1.31 million would remain available for capture at the end of a three-year period. Members of the ICR subcommittee and some members of the administration accepted this projection as a reasonable one. Consequently, the projected capture amount is projected to be less than two percent (2%) of the $10 million (later $7 million) that the administration reported to the BOG in defending its 1997 plan.

It is important to note that the $5.46 million of expenditures during 1995 predated by a full fiscal year the announcement of the administration's new ICR policy. The 1995 expenditures reflect the normal activity in the ICR accounts as the various entities managed their research programs. The FY 1995 expenditures obviously were not made in reaction to the administration's 1997 plan.

3. The Consultation Process

Shortly after the ICR Subcommittee's analysis of the FY 1995 ICR accounts was presented in the Budget and Policy Committees, the administration signaled its willingness to defer for one year the implementation of its plan. In early 1997, Professor McIntyre, on behalf of the Budget Committee, initiated a discussion of that development with John Oliver, Deputy VP for Academic Affairs. During that discussion, Professor McIntyre conveyed to Mr. Oliver the substance of a subcommittee report that was in progress and provided Mr. Oliver with a draft of that report. Mr. Oliver indicated that the administration was prepared to consider making substantive changes in its policy and that there appeared to be considerable common ground between the views outlined by Professor McIntyre and the views of some members of the administration. He also indicated that the administration now understood that the total amounts unspent for the three-year period probably were less than $200,000.

Professor McIntyre indicated to Mr. Oliver that a final report from the subcommittee could be expected shortly. He informed Mr. Oliver that the Budget Office had indicated that it now had obtained data for FY 1996 in electronic form and that the ICR subcommittee would analyze that data as soon as possible. In the interim, Professor McIntyre stressed the importance of the administration immediately informing the various entities holding ICR accounts that the implementation of the current policy was being suspended. He expressed a concern that many units of the university were not knowledgeable about the way the proposed plan would operate and that they might be making some imprudent spending decisions to avoid the risk of their ICR funds being captured by the university.

4. ICR Policy Goals

When the ICR subcommittee began discussion of the administration's policy on capture of unspent amounts in ICR accounts, it had been informed that the administration intended to implement the plan presented to the Board of Governors, with such modifications as it deemed appropriate, after consulting with the Budget Committee of the Academic Senate and others. The draft report initially prepared by the subcommittee dealt in some detail with issues that would arise under the administration's plan. Although the administration has abandoned that plan, the subcommittee believes that there is some utility in addressing those issues, at least in a general way, in this report. As noted above, the administration has signaled that it will be monitoring ICR accounts and may revisit this issue in the future.

After discussions with the Budget Committee of the Academic Senate and among its members, the subcommittee has concluded that any policy dealing with the administration of funds in ICR accounts should seek to achieve the following two goals:

(1) The redistribution of funds in ICR accounts that are no longer active, however defined; and

(2) The avoidance of risk, unfairness, and unnecessary inconvenience to holders of active ICR accounts.

To achieve the second of these goals, a policy providing for capture of amounts in ICR accounts must specify clearly the circumstances under which an ICR account would be reviewed. Provision also must be made to give entities reasonable notice that their ICR accounts will be reviewed. The 1997 policy announced by the administration is unsatisfactory because:

(1) it captures funds without reference to the special circumstances of the entities;

(2) the data needed to implement that policy cannot be obtained in a timely fashion;

(3) the policy imposes unreasonable administrative burdens on entities that are carrying forward ICR funds for valid programmatic reasons;

(4) it moves control over the spending of funds out of the hands of the researchers who generated those funds to individuals who are not directly involved in research; and

(5) it would be implemented retroactively -- i.e., it would capture funds accrued over a three-year period with only nine months notice to entities of the requirement that they spend down those accounts or forfeit them and no timely notice of the amounts in the accounts subject to capture.

5. ICR Issues to be Resolved

A policy for addressing accumulated balances in ICR accounts should take into account the following issues, each of which is addressed in more detail below:

- What period, if any, should be used to test whether there is a potential problem of underutilized funds in an ICR account?
- At what point, if ever, should an account be considered "inactive" and subject to forfeiture? There seems to be general agreement that truly inactive accounts should be closed out as soon as practical.
- What type of *de minimis* rule, if any, should be developed to prevent PIs with small "petty cash" balances from having to cope with capture rules.
- What types of waiver procedures, if any, can be developed to allow entities to retain funds when they have good reason for not spending down their accounts?
- How much notice should entities be given before ICR accounts are subject to review?

- What unit of the university (department, school, college or central administration) should obtain ICR funds from inactive accounts, and what procedures should be established for reallocating the funds for research simulation?

a. Testing Period

The data currently available suggest that most PIs spend down their accounts in one year. The use of a three-year window, therefore, does not appear to be excessively burdensome for the majority of entities, assuming, as discussed below, that appropriate exceptions be provided.

The subcommittee strongly recommends that the three-year testing period be the three years prior to the current year. For example, if the testing period is FYs 1997-1999, the capture year should be 2000. By the middle of FY 2000, the entities holding ICR accounts will know that they have a three-year balance subject to capture. They would then have a reasonable period to spend down their balance to advance their research in an optimal way. They would not be in the position of having to make unwise or inappropriate expenditures in FY 1999 simply to avoid the risk that their balance may be captured. The administration's 1997 policy was defective in that it would cause capture of funds accumulated from FYs 1995-1997 on September 30, 1997. Holders of the accounts would not know their exact exposure to capture until well into FY 1998 when the FY 1997 account information would be made available to them.

In addition, the subcommittee believes that the three-year period should be selected so as to avoid unwanted effects tat would result from implementing the policy retroactively. In discussions within the Budget Committee, it became clear that a number of researchers plan their expenditures with fairly long time horizons. They should not have their reasonable expectations frustrated by a policy that interferes with prior plans that are reasonably made.

b. Inactive Accounts

There seems to be general agreement that inactive ICR accounts should be liquidated as soon as practical. The question is how to identify an inactive account. Obviously accounts of PIs who have left the university should be considered to be inactive, in the absence of some special arrangement with the PI's department for continuing an ongoing project on a temporary basis. In addition, ICR accounts of programs that have been discontinued should be classified as inactive. Once an account is identified as inactive, it should be liquidated.

c. **De Minimis** ***Rule***

Entities should not be subject to capture of funds when the unspent balance for a three-year window is below some small amount. We cannot make a specific recommendation on what that amount should be until we are able to review three years of data. Our tentative view, however, is that a *de minimis* amount of $2,000, or possibly more, would avoid unreasonable burdens on entities without creating any risk that significant amounts of ICR funds are not being utilized for the stimulation of research.

d. Provision for Waivers

The most glaring defect in the 1997 plan is the lack of any provision for waivers when entities are holdings funds beyond the three-year window for good reason. During the discussions at the various meetings of the Budget Committee, it became clear to everyone that entities sometimes have very good reasons for maintaining funds in ICR accounts. At this point, we only have anecdotal information on the reasons that entities have for maintaining balances in ICR accounts for extended periods. We suggest that the administration develop some procedure for surveying entities to obtain more reliable information before developing any revised plan.

After the suggested review, it may become clear that virtually all entities holding unspent balances in excess of three years have good reason for doing so. In that event, it might be sufficient to simply require PIs who hold balances in excess of three years to report their spending plans at the department level. They should them receive an automatic waiver without a special review initiated by their department.

e. Reallocation of Captured ICR Funds

In general, we believe that funds captured from ICR accounts should remain in the unit responsible for administering the corresponding research program. It may be appropriate to oversee the reallocation of funds in some cases. We suggest that the administration involve the department chairs and deans, as well as the Academic

Senate, in discussions about procedures for the reallocation of funds captured from ICR accounts.

6. Conclusions

A review of the administration's 1997 plan to capture ICR account funds has been carried out by a subcommittee of the Academic Senate's Budget Committee. Only FY 1995 ICR account information was available in electronic form to carry out a meaningful analysis of the 823 ICR accounts in the database. The analysis showed that $1.31 million was available for possible capture at the end of one fiscal year. It was projected that less than $200,000 of that $1.31 million would remain at the end of a three-year period. The expenditures out of ICR accounts during FY 1995 were $5.46 million, and those expenditures are believed to reflect normal activity in the ICR accounts as the various entities managed their research programs.

The subcommittee recommends a three-year testing period if an ICR policy is to be implemented and that the testing period be initiated following the announcement of the policy. ICR accounts of entities no longer active with the university should be liquidated, and a *de minimis* rule of $2,000 or more seems appropriate. It is suggested that funds from liquidated ICR accounts be assigned to the research program that generated the funds but that the advice of PIs, departments, and deans be solicited in this matter. The subcommittee believes that any revised plan should include provisions for waiving ICR capture policies and that the relevant constituencies should be surveyed in determining the appropriate criteria for granting waivers.

The subcommittee has been slow in completing this report. The initial delays were due to problems with obtaining information from the Budget Office. That information was requested repeatedly, and the subcommittee was assured on several occasions that the information would be forthcoming. In fact, however, only data on FY 1995 was obtained in usable form. The subcommittee was reluctant to submit an incomplete report for fear that it might be misunderstood or misused.

Once it became clear that the administration was abandoning its plan to implement a capture plan in the immediate future, the subcommittee felt that a report based on the currently available data was appropriate. It intended to issue that report in July. Unfortunately, professional commitments on the part of members of the subcommittee prevented us from meeting that schedule.

Although the consultative process between the administration and the ICR Subcommittee did not always go as smoothly as we wished, the subcommittee believes that it has been successful. The subcommittee notes with approval the announcement in the FY 1998 Budget Book of the administration's intention not to implement the ICR policy that is the subject of this report. The wide consultation within the university on the part of the administration on the announced policy during the past six month is an important development that the subcommittee has favorably noted.