

January 13, 2016

MEMORANDUM

TO: State Board of Regents

FROM: Dave Buhler, Commissioner

SUBJECT: Revision to policy, R535 Reimbursed Overhead

Issue

A recent audit by the Legislative Auditor General recommended the Board of Regents update Regent Policy R535, *Reimbursed Overhead* to provide greater detail and transparency in reporting and to direct more reimbursed overhead to significant operations and maintenance needs.

Background

The Legislative audit recommended:

We recommend that the Board of Regents revise its policy on reimbursed overhead funds to direct institutions to use those funds provided for infrastructure or O&M costs for those purposes if there is a significant need for additional funding in those areas. This could be accomplished through the adoption of a specific funding formula.

The Commissioner's staff worked with the institutions to develop revisions that address the auditor's concerns while preserving the institutions' autonomy and flexibility in determining the appropriate ways to distribute reimbursed overhead.

Revisions include:

Section 3.1 defines reimbursed overhead revenue for the purposes of the policy.

Section 4.2 clarifies that institutions must use research related reimbursed overhead revenues in support of research and related programs.

Staff removed section 3.2.1, which defined what qualifies as a "related program." The institutions are better suited to determine what qualifies as a "related program".

Staff removed section 3.2.2, which directed institutions to apply reimbursed overhead revenues to research and related programs in direct proportion to the amount of research related revenues collected. The section was confusing and is now unnecessary with the changes to section 4.2.

Staff included a new section—numbered as 4.2.1—that establishes a list of acceptable uses for reimbursed overhead revenue. As recommended by the auditor, using reimbursed overhead for significant operations and maintenance is featured prominently in this list, though it is not a required use. This list is not exhaustive, however, and institutions have the flexibility to add to it as they deem appropriate.

Section 4.3 includes edits that ensure a greater level of transparency and detail in how institutions report their reimbursed overhead revenues and distributions.

Commissioner's Recommendation

The Commissioner recommends the Regents review the proposed revisions and, if in agreement with the changes, approve the revisions to policy R535, *Reimbursed Overhead*, effective immediately.

David L. Buhler
Commissioner of Higher Education

DLB/GLS/GTL
Attachments

R535-1. Purpose: To provide policy guidelines for institutional budgeting, accounting and reporting of reimbursed overhead revenues and expenditures.

R535-2. References

- 2.1. Utah Code §53B-7-104 (Retention of Net Reimbursed Overhead Revenues)

R353-3. Definitions

3.1. Reimbursed Overhead Revenue: Reimbursed overhead revenue is recovery from contracts or grants designated to reimburse the institution for associated overhead expenses.

R535-~~34~~. Policy

~~34~~.1. **Not a Dedicated Credit:** Reimbursed overhead is not considered a dedicated credit.

~~34~~.2. **Retained for Support of Research and Related Programs:** Institutions shall retain All research related reimbursed overhead recovery ~~shall be retained by the institution~~ for the support of research and related programs.

~~3.2.1.—Related programs include expenditures for instruction, public service, necessary physical plant, and student, academic and institutional support.~~

~~3.2.2.—Institutions shall apply reimbursed overhead to direct and indirect support of research programs in approximately the proportion of such funds earned on research contracts to total reimbursed overhead revenues.~~

4.2.1 Suitable uses of reimbursed overhead funds in support of research include but are not limited to:

- Costs of recruiting and retaining key researchers
- Significant operations and maintenance costs that support research programs
- Graduate student support
- Funding for the development of new research initiatives
- Direct support of specific research programs
- General research support of entities critical to the research program
- Facilities, student, academic, and institutional support
- Cooperative extension programs as a means of extending research results to Utah citizens

~~34~~.3. **Annual Report to the Board:** Each institution shall submit an annual report to the Board as part of the annual budget cycle in a format provided by the Office of the Commissioner. The report shall include an

¹ Approved November 23, 1971, amended November 28, 1972, May 25, 1973, October 20, 1976, July 1, 1980, April 21, 1981, March 16, 1982 and May 24, 1991, when both R535 and R536 were replaced.

accounting of all reimbursed overhead ~~revenues recovery~~ received during the ~~most recently completed fiscal year, previous fiscal year.~~ The institution shall report ~~shall also include~~ a detailed accounting of how it distributed the expenditures of such the funds, specifically identifying the separate uses of reimbursed overhead funds for direct and indirect research support and other related programs. ~~In addition to the reporting of~~ The institutions shall report actual ~~revenues reimbursements~~ and expenditures for the prior fiscal year, and budgeted ~~revenues reimbursements,~~ and expenditures for the following fiscal year. ~~and planned revenues and expenditures for the following fiscal year shall be reported.~~

34.4. Reporting to the Legislature: The Office of the Commissioner shall provide the report outlined in Section 3.3 ~~shall be provided~~ to the Legislature, through the Office of the Legislative Fiscal Analyst.

34.5. Accounting Standards: In accounting for reimbursed overhead, each institution shall comply with financial accounting and reporting standards as outlined in the "NACUBO Accounting Manual for Higher Education."

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R535-4. Policy

- 4.1. **Not a Dedicated Credit:** Reimbursed overhead is not considered a dedicated credit.
- 4.2. **Retained for Support of Research and Related Programs:** Institutions shall retain all research related reimbursed overhead recovery for the support of research and related programs.
 - 4.2.1 Suitable uses of reimbursed overhead funds in support of research include but are not limited to:
 - Costs of recruiting and retaining key researchers
 - Significant operations and maintenance costs that support research programs
 - Graduate student support
 - Funding for the development of new research initiatives
 - Direct support of specific research programs
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 - Cooperative extension programs as a means of extending research results to Utah citizens
- 4.3. **Annual Report to the Board:** Each institution shall submit an annual report to the Board of Regents as part of the annual budget cycle in a format provided by the Office of the Commissioner. The report shall include an accounting of all reimbursed overhead recovery received during the previous fiscal year. The institution shall report a detailed accounting of how it distributed the funds, specifically identifying the separate uses of reimbursed overhead funds for direct and indirect research support and other related programs. The institutions shall report actual reimbursements and expenditures for the prior fiscal year, and budgeted reimbursements and expenditures for the following fiscal year.
- 4.4. **Reporting to the Legislature:** The Office of the Commissioner shall provide the report outlined in Section 3.3 to the Legislature through the Office of the Legislative Fiscal Analyst.

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