



TO: ASMSU Leadership  
Classified Council Leadership  
Faculty Council Leadership  
Professional Council Leadership

FROM: Geoffrey Gamble  
President

DATE: September 22, 2006

I am writing to inform you of the report from a review recently conducted by the Huron Consulting Group. To obtain an outside assessment of our current operations, we contracted with Huron to review our policies and procedures for distributing the Facilities and Administrative (F&A) funds we receive from external organizations that fund research conducted by our faculty.

As background, F&A cost recoveries are those funds paid on many grants, which are provided to cover a negotiated portion of the estimated indirect costs incurred in conducting the funded research. In FY2005, MSU had over \$98 million in Grants and Contracts expenditures, and of that amount, \$15.4 million was F&A recoveries. This \$15.4 million is the only amount for which we have any discretion in how it is used; the balance of \$83 million is revenue that is restricted to funding the direct costs of the research project for which the funding was granted.

Huron was asked to review the University's use of F&A recovered funds and the policies in place for distribution of recovered F&A. The study included a campus visit by the consultant in which he gathered data and conducted interviews with students, the President and representatives of Admin/Finance, Research Office, Office of Sponsored Programs, and the Provost's Office.

**Office of the President**

211 Montana Hall  
P.O. Box 172420  
Bozeman, MT 59717-2420  
[www.montana.edu](http://www.montana.edu)

Tel (406) 994-2341  
Fax (406) 994-1893

The report from the Huron Group presented the following observations:

- Tuition and fees have increased at almost equal rates on all MUS campuses, including those campuses without active research programs. There is no evidence suggesting that tuition increases are significantly affected by the growth of campus-based research.
- Considering MSU's three main sources of revenue, there are legitimate concerns for maintaining all three at a level that is needed to support the academic missions of instruction and research.
- MSU has the discretion to make reinvestment decisions with F&A funds to grow the research program. This approach is not established in statute and might be subject to legislative action.
- Nationwide, there are no universal practices for the utilization of F&A funds, as universities use these funds for a wide variety of purposes. Hence, there are no broadly-based benchmarks against which MSU can be compared for its reinvestment practices.
- The rate of F&A recovery is driven by federal negotiations. The current rate is due for renegotiation this year and the process is not guaranteed to generate a higher rate, or even maintain the current rate.
- 12% of MSU's research revenue is from non-federal grants, yet these sources account for only 4% of the F&A recovery. Although MSU should plan carefully in accepting such grants, as the state's Land Grant University, MSU has an obligation to accommodate USDA CSREES, Montana Agricultural Experiment Station, and Extension functions which typically do not provide full F&A recovery, and frequently do not allow recovery of any F&A.

- The annual distribution of F&A funds to colleges, departments and Principal Investigators varies with the volume and funding source of research grants. This variation can make it difficult for departments to budget, as funding fluctuations limit the ability to predict the distribution to departments.
- Some financial stress has been experienced by central finance and administrative units, facility support and IT functions, in part attributed to the rapid growth in research activity.

The report presented the following recommendations:

- Codify philosophies, policies and practices, and regularly promote these policies on web sites and in other venues, to help establish these standards as on-going practices.
- Clearly and consistently articulate the interrelatedness of MSU's integrated research and instruction mission. This will reinforce the MSU brand-name.
- Continually demonstrate the beneficial effects of the University on local and state economies through regular economic impact studies and documentation of business growth and the recruitment of new businesses to the state as a result of the University.
- Establish objective, mission-based decision-making processes to decide how to reinvest F&A funds to best balance the research and instruction at MSU. Input from leadership to UPBAC is the desired communication flow, to ensure consistent and transparent distribution of funds.
- Consider decentralizing selected payroll coding and/or other financial functions driven by research, thereby shifting some administrative costs to departments with significant research activity.

As a result of this review and subsequent report, we have a number of follow-up actions that we will be implementing.

MSU recognizes a need to ensure transparency so the university community and our public understand why we recover what we do and how we reinvest those funds to continue to improve and strengthen both research and instruction. To accomplish this, our plans include the following:

- A small executive leadership committee will be appointed by the President to evaluate opportunities and needs and to make general recommendations for investment of F&A funds.
- The newly appointed committee will present F&A distribution and funding recommendations to UPBAC for input. Significant proposed changes in F&A policies will also be presented to UPBAC for discussion and their recommendation.
- MSU will expand our current marketing campaign, which emphasizes our brand promise of integrating learning and the discovery of knowledge. Part of this campaign will include quantifying the impact of our research program on the local and state economies.
- Our Administration and Finance Division is currently engaged in a Business Processes Review. They are studying issues related to decentralized processes, and any recommendations they make will be considered by the executive committee and the President. Though it is possible that the suggested decentralization will not work on a smaller scale operation such as ours, we will continue to consider this option for future applicability.

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Because of policies of USDA CSREES Special Grants, and Montana sources such as the Wheat and Barley Committee, the Noxious Weed Trust Fund and the Board of Research and Commercialization, no F&A is allowed. Though the revenue provided by the F&A recoveries are important to the university, as the Land Grant university, MSU feels a strong obligation to undertake specific research that is of priority interest to the state of Montana, even though many of these grants provide no F&A recovery.

The Huron Review of policies and procedures associated with recovered F&A has been a good opportunity for self-examination and a valuable exercise. We appreciate the detailed review conducted by the Huron Group and their recommendations.

A copy of the full report can be found on the MSU web site, at:  
<http://www.montana.edu/cpa/pdfs/huronreport.pdf>.

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cc: Sheila Stearns, Commissioner of Higher Education