

should be uniform across institutions. The new methodology should promote greater uniformity of cost allocation among institutions while stabilizing the impact on project costs. This methodology will be proposed in a future revision to Circular A-21.

(3) Develop standard benchmarks for utility costs. In conjunction with the proposed revision in this Notice to eliminate special studies for utility costs, OMB plans to develop a benchmark ratio, based on determinants of the ratio of utility usage to research space, to standardize the allocation of such costs to sponsored research. These benchmarks will be proposed in a future revision to Circular A-21. After benchmarks for utility costs have been developed and implemented, OMB will also consider employing similar processes and models to develop benchmarks for libraries and student services.

(4) Develop and test a model for charging space costs directly to research grants. Over the last several years, policymakers, scientists and negotiators have discussed the idea of identifying project-specific space costs and charging those costs directly to grants. Direct charging would strengthen the incentive for colleges and universities to allocate space efficiently. Charging space directly to sponsored agreements would also help clarify the true costs of research and subject these costs to peer review and program oversight on a project-by-project basis.

The idea of charging space directly has not been adopted because some perceive it as too complicated from a technical perspective. The Federal Demonstration Project (FDP), which was established to test ways to improve flexibility and reduce the administrative costs associated with grantmaking, is well-suited to test the idea of direct charging space to grants. Further, the National Performance Review recommended using the FDP as a model program to reduce overhead on research grants. OMB has requested the FDP to develop a model for and to test direct charging of space.

(5) Examine and potentially revise the useful life schedule for equipment. OMB intends to review the current useful life schedules for equipment to ensure cost recovery policies keep pace with the changing nature of scientific equipment. Useful life schedules will be updated in future proposed revisions of Circular A-21, as appropriate.

(6) Examine methods for explaining variations in facilities and administrative costs rates. OMB will review ways of collecting data to explain rate variation, to include

establishing a uniform chart of accounts. OMB solicits comments on methods that will provide appropriate data in a cost-effective manner.

John B. Arthur,

Associate Director for Administration.

The following are proposed revisions to sections A, E, G, and J of Circular A-21:

(1) Amend Section A by: (a) deleting paragraph 2.f, (b) changing the number of the current paragraph 3 to 4, and (c) adding a new paragraph 3 as follows:

3. Cognizant agency assignments and responsibilities.

a. Cognizant agency assignments. Cost negotiation cognizance is assigned to the Department of Health and Human Services (DHHS) or the Department of Defense, Office of Naval Research (ONR), based on which of these two Departments provides more Federal funding through sponsored agreements to an educational institution (including its component parts) for the most recent three years available using data published by the National Science Foundation in its annual report entitled "Selected Data on Federal Support to Universities and Colleges." Cognizant assignments as of December 31, 1994, will continue in effect through educational institution years ending during 1997, except for those institutions with cognizant agencies other than DHHS or ONR. Cognizance for these institutions will transfer to DHHS or ONR not later than the end of the period covered by the current negotiated indirect cost agreement. Once cognizance is established, it will continue for a five-year period.

b. Acceptance of rates. The negotiated rates will be accepted by all Federal agencies. This does not preclude agencies from paying a lower rate pursuant to a class of sponsored agreements or a single sponsored agreement.

c. Correcting deficiencies. The cognizant agency will negotiate changes needed to correct systems deficiencies relating to accountability for sponsored agreements. The cognizant agency will seek the views of other affected agencies before entering into negotiations and invite their participation.

d. Resolving questioned costs. The cognizant agency will conduct any necessary negotiations with the institution regarding amounts questioned by audit that are due the government related to costs covered by a negotiated agreement. Prior to reaching final agreement with an institution, the cognizant agency will seek the views of other agencies concerned.

e. Reimbursement. Reimbursement to cognizant agencies for work performed under this Circular may be made by reimbursement billing under the Economy Act, 31 U.S.C. 1535.

f. Procedure for establishing facilities and administrative cost rates. The cognizant agency will arrange with the institution to provide copies of facilities and administrative cost proposals to all interested agencies. Agencies wanting such copies should notify the cognizant agency. Facilities and administrative cost rates will be established by one of the following methods:

(1) Formal negotiation. The cognizant agency will advise all interested agencies of its intention to negotiate, and schedule a pre-negotiation conference, if necessary. The cognizant agency will then arrange a negotiation conference with the institution. If an agency does not wish to be represented in these meetings, the cognizant agency will represent that agency.

(2) Other than formal negotiation. This will include cases where the institution and cognizant agency determine that agreement can be reached without a formal negotiation conference; for example, through correspondence or use of the simplified method described in this Circular.

g. Formalizing determinations and agreements. The cognizant agency will formalize all determinations or agreements reached with the institution and provide copies to other agencies having an interest.

h. Disputes and disagreements. Where the cognizant agency is unable to reach agreement with an institution with regard to facilities and administrative cost rates or audit resolution, the appeals system of the cognizant agency will be followed for resolution of the disagreement.

(2) Amend Section A., "Purpose and scope" by adding a new paragraph A.4. as follows:

4. *Interagency Working Group.* A Federal interagency working group will be responsible for coordination of cost policy development for sponsored agreements. The group will meet at least semi-annually. The Office of Management and Budget (OMB) and the Office of Science and Technology Policy (OSTP) will serve as Co-Chairs. Federal agencies represented will be the Office of Science and Technology Policy of the Executive Office of the President, the Department of Health and Human Services, the Office of Naval Research of the Department of Defense, the National Science Foundation, the Department of Education, the Department of Energy, and such other agencies as OMB designates. The responsibilities of the