Associated Universities, Inc.

Suite 730,
1400 16th Street, NW
Washington, DC 20036-2252
Phone: 202-462-1676
www.aui.edu

Suzanne Plimpton,
Reports Clearance Officer,
National Science Foundation,
4201 Wilson Blvd., Rm. 1265,
Arlington, VA 22230

January 30, 2015

Dear Ms. Plimpton,

I am responding on behalf of Associated Universities, Inc. (AUI) to the *Notice and Request for Comments on the National Science Foundation (NSF) Implementation of Proposed NSF Management Fee Policy* that was published in the Federal Register on December 30, 2014. AUI appreciates this opportunity to comment on the policy.

AUI is a 501(c)(3) non-profit, research management organization, operated for the benefit of science and education. It has for many years received management fee from NSF for ordinary and necessary, but otherwise non-reimbursable, business expenses which have been associated with our management of research facilities for the government.

Our management fee requests to NSF have ranged from 0.5% to 0.75% of the funding received via our cooperative agreements with NSF. Fee has typically been used to cover a range of expenses that for the most part are unremarkable but unallowable. Over many years, our forecasted use of management fee has been accurate. Our fees have typically been far less than those of the non-profit entities with which we now compete in NSF solicitations for major facility management; for-profits may request up to 10%-15% profit and typically have multiple sources of income. Further limitations on management fee will exacerbate an existing competitive distortion.

AUI maintains a very thin layer of management over our facilities. We have used fee for corporate expenses that align with the NSF and AUI missions, and with historical precedent of activities that are appropriate and justify management fee. AUI has used management fee as well as corporate reserves to leverage outreach activity and education and community activities that have supported NSF's and AUI's goals of broadening participation, promoting awareness and learning in science and astronomy, and promoting diversity, often via programs not directly related to the facilities we currently manage. In recent years, we have also used management fee to promote the interests of US astronomy and North America's role in Chile, including in collaboration with other NSF management fee-receiving entities that operate there. Finally, we have used fee in our search for partnerships that will facilitate NSF obtaining benefit from its divestment objectives.

We fully believe that NSF benefits from these strategic uses of management fee, and will continue to do so.

We acknowledge the examples in the revised policy of expenses that NSF does not regard as benefiting the agency. We consider the guidance to be useful but have some concerns especially with the inclusion of "charitable contributions." Our telescope sites are located in remote locations, surrounded by isolated and usually disadvantaged communities. Over time, we have expended modest amounts of management fee to provide financial leverage for initiatives in these remote localities, including contributing to civic activities, daycare, library facilities, volunteer and emergency response teams, that help build/restore/maintain a mutual sense of belonging, and highlight the benefits of hosting NSF's facilities. We have also made donations to organizations promoting diversity and broadening participation in science and technology. These examples of social responsibility bring concrete benefits to NSF. Consequently, we request the exclusion of this category from the list, or some modification that allows these beneficial activities to continue.

AUI acknowledges and understands the rationale behind the policy language indicating management fee "be subject to adjustment in the event of a significant change to the budget or work scope," but urges caution about assuming a precise, linear relationship between appropriate management fee level and overall funding. Management fee expenses (and their benefits to NSF) do not neatly scale with the expenses incurred in the cooperative agreements, either when project budgets rise or fall, or when project scope changes. We note especially the continued requirement for management fee to responsibly promote NA interests in Chile, even after ALMA construction has ended. NSF's acknowledgement of this in the future policy revision would be helpful.

We feel our use of management fee over these many years has been in conformance with the cooperative relationship that exists between AUI and NSF and in line with the fee's original rationale as a source of funding beyond the "precise limitations of cost financing or specific tasks.[1]" Our fee utilization has helped and will continue to help the NSF mission, and assist AUI to meet its development needs, as management fees were intended. AUI has a strong ethical code, is subject to both government and independent audits, has a strong internal risk management program and has set the expectation with our research center and corporate office staff that they *must* report any incidents of unethical, irregular, illegal or wasteful behavior; visitors, contractors, and anonymous third party reports are also entertained.[2] Our regular audits have the objective of ensuring that unallowable expenditures are not charged as project costs, and audits have consistently found, year-on-year, that they have not been. We are confident that AUI's leadership and abundance of controls limit very significantly the likelihood of an abuse of management fee.

Historically, both NSF and AUI have considered management fees as discretionary funds. NSF has not required AUI, nor NSF's other awardees, to account for the use of management fee.[3] As such, AUI has not segregated the utilization of management fee from different sources. Consequently, we would have difficulty complying with the proposed policy section requiring, "Information on actual uses of management fee previously awarded by NSF in the preceding five-year period under any award shall be included in the proposing organization's fee proposal." We do understand NSF's request that awardee's requests for 2016 management fee include information about their use of FY2015 management fee, and so on in future years. However, as a matter of timing, if the intent of the policy is that "agreement on management fee amounts shall be completed and a sum established

[1] Report to the President on Government Contracting for Research and Development, Bureau of Budget, April 30, 1962

[2] See, for example, www.aui.ethicspoint.com

[3] NSF letter to Senators Grassley & Paul, October 1, 2014

prior to the initiation of work…" *in each financial year*, any figures given about the previous year's management fee will be provisional.

AUI shares NSF's desire for an "appropriate balance between the strength of controls and the relative risk," and its view that "the benefits of controls should outweigh the cost," and that "both qualitative and quantitative factors [should be considered] when analyzing costs against benefits.[4]" Taking into consideration the extremely small percentage of our managed funds that management fee represents, the abundance of controls already in place, and the appropriate flexibility of the cooperative agreement relationship that benefits both parties, AUI is pleased to support this clarification of the management fee policy and requests NSF's reconsideration of the policy issues raised above.

Thank you for your consideration of these comments on behalf of AUI, as you finalize the new management fee policy.

Sincerely,

Ethan J. Schreier
President

[4] Introduction to OMB Circular A-123 - Management's Responsibility for Internal Control, 2004