

----- PACERM INTERIM NEWSLETTER -----

EMERGING RISKS – April 2008

1. Federal level risks

- a. **US Senate Finance Committee** requests information about university endowments; UW is one of over 70 universities to respond to detailed questions about our endowment and its uses. Some Senators are considering legislation that would require a minimum annual distribution from the endowment, such as 5% each year. There is a federal requirement for charitable foundations to make minimum distributions, but it has not applied to institutions of higher education. President Emmert provided an op-ed column in the Seattle PI on March 6th about the Congressional interest in endowments.

A letter to the Senate committee from Cambridge Associates, an investment consulting and financial planning firm (which UW has had on contract for many years) makes a point that a fixed percentage every year results in fluctuations in the cash distribution, making it difficult to plan budgets; and may also erode the long term financial strength of endowments. We can provide President Emmert's column, UW's response to the Senate, or the Cambridge letter if you are interested in more details, and we will provide updates on the Senate's review.

- b. **Proposed federal contractor compliance programs** and integrity reporting requirements for Department of Defense (DOD), National Aeronautics and Space Administration (NASA) and General Services Administration (GSA) have been introduced for comment. UW expressed concerns with:
- The possibility that the proposed rule may be inconsistent with a separate inter-agency initiative to develop standard guidelines for recipients of research funding; we recommend waiting until the initiative is complete, and believe there should be a single federal standard to foster integrity and honesty.
 - Proposed rule is overly prescriptive: require a single code of business conduct when in current practice several policies that address specific aspects of conduct may work better for an institution; and require specific, possibly ineffective methods of communicating requirements to employees, that does not allow an institution to adapt as appropriate for its organizational structures and culture.
- c. **Reduced indirect cost for Department of Defense sponsored research.** Congress placed a cap on Facility and Administrative/indirect cost recovery in the DOD budget bill. This is troublesome because it was legislated with no congressional hearings nor evidence that there have been unjustified F&A costs. Based on FY2007 funding levels, this has minor impact on UW, about \$15,500 annual reduction in cost recovery. Concern is with the precedent, and that it may be expanded to other federal sponsoring agencies. We will monitor this in association with other colleges and universities.
- d. **Cell phones:** Long standing IRS tax rules treat cell phones as employer-provided items ("fringe benefits" such as automobiles) that require detailed documentation to substantiate business use by employees. IRS has stepped up audits in this area, and campuses unable to produce voluminous detailed logs tracking employees individual

