



The Cost of Federal Regulatory Compliance at Vanderbilt University

An assessment of federal regulatory compliance costs in FY 2013-2014

Overview

The federal government plays an active and necessary role in regulating higher education and research conducted at colleges and universities across our nation. This regulatory oversight is critical to ensuring that taxpayer dollars supporting higher education and research in myriad ways are responsibly managed; that the health and safety of all students, faculty, staff and visitors is protected; that research is conducted safely and responsibly; that federal laws are followed and that many other important checks and safeguards are in place. At a time when students, families, policymakers and higher education leaders are carefully examining the cost of higher education in the United States, a close analysis of the costs associated with federal regulation is warranted.

Important progress has been made in understanding the current state of federal regulation of higher education. In 2012, the Federal Demonstration Partnership conducted a Faculty Workload Survey sponsored by the National Academy of Sciences, with the aim of determining the impact of federal regulations and requirements on the research process¹. In 2013, a bipartisan group of U.S. senators created the Task Force on Government Regulation of Higher Education, a collection of university presidents co-chaired by Vanderbilt University's Chancellor Nicholas S. Zeppos and Chancellor of the University System of Maryland William E. Kirwan, charged with understanding Department of Education regulations and suggesting improvements. One of the task force's specific charges was to, "review and quantify the extent of all federal requirements with which institutions must comply, including estimates of the time and costs associated with specific regulations." In March 2014, the National Science Board presented findings regarding investigators' administrative workload for federally funded research along with specific policy action recommendations². In February 2015, the Task Force on Government Regulation of Higher Education presented [their report](#)³ on the work begun in 2013, including specific policy recommendations, to the U.S. Senate Health, Education, Labor, and

¹ http://sites.nationalacademies.org/cs/groups/pgasite/documents/webpage/pga_087667.pdf

² <http://nsf.gov/pubs/2014/nsb1418/nsb1418.pdf>

³ Task Force on Government Regulation of Higher Education Report:
http://www.help.senate.gov/imo/media/Regulations_Task_Force_Report_2015_FINAL.pdf

Pensions (HELP) Committee. In addition, the Association of American Universities, the Council on Governmental Relations and the Association of Public and Land-grant Universities, together with Yale University, are currently engaged in a joint effort to assess the research regulatory burden among member institutions. Finally, the National Academy of Sciences currently has a committee examining research regulations and reporting requirements facing universities; this committee has not yet released its findings.⁴

Until now, however, relatively few attempts have been made to systematically quantify the cost of federal regulatory compliance in higher education. Stanford University⁵ estimated conservatively in 1997 it incurred about \$20 million per year in on-going costs related to compliance with regulations, but recognized this estimate was likely quite low as it did not include time spent by Stanford faculty and staff in compliance-related meetings, on panels, doing paperwork, meeting with compliance officials and performing other tasks. A more recent self-audit by Hartwick College⁶ in 2012 cited an annual cost of compliance of about \$300,000, though estimated that the actual cost of compliance could be as much as 7 percent of its non-compensation operating budget when decentralized costs including faculty time are considered.

In an effort to better understand its own costs, in the fall of 2014 Vanderbilt University commissioned the Boston Consulting Group to conduct a comprehensive estimation of its cost of federal regulatory compliance and accreditation, excluding the federal regulations associated with clinical care provided through its academic medical center. The scope of this internal study was confined to determining the costs associated with federal compliance as well as the breadth of offices and people across the university engaged in federal compliance and accreditation activities. This document provides an overview of the results of that assessment.

⁴ <http://sites.nationalacademies.org/PGA/stl/researchregs/index.htm>

⁵ 1997 Stanford study: <http://web.stanford.edu/dept/pres-provost/president/speeches/971016collegecost.html>

⁶ 2011-2012 Hartwick College report: http://www.naicu.edu/docLib/20130315_Compliance-HartwickColl-12-12.pdf

Assessment Methodology

The Boston Consulting Group conducted the assessment at Vanderbilt University from August to October 2014. The methodology was based on determining relevant regulatory areas, identifying different types of costs, following a set of principles to determine whether an activity is required to comply with federal regulations and employing tools and methods to collect data. The study estimated costs for FY 2013-2014 (July 1, 2013 to June 30, 2014).

Definition of regulatory areas

Regulatory areas for which compliance costs were estimated were divided into three categories:

- **Research:** regulatory areas specific to research, including federal grants and contracts management, research/human participation compliance, environmental health and safety compliance related to research, animal research compliance, export controls compliance, conflict of interest, technology transfer requirements and research misconduct requirements;
- **Higher-ed:** regulatory areas specific to the higher education sector but not pertaining to research, including accreditation, financial aid, Federal Education Rights and Privacy Act (FERPA), sexual misconduct (Title IX), Clery Act, drug and alcohol prevention, Integrated Postsecondary Education Data System (IPEDS) reporting requirements, Title IX athletics administration, gainful employment, state authorization and equity in athletics data analysis (EADA); and
- **All-sector:** regulatory areas not specific to the higher education sector including finance, immigration, disability, antidiscrimination and other human resources-related requirements, environmental health and safety regulations outside of those related to research and the Federal Information Security Management Act (FISMA).

Types of costs

Three types of costs were considered in the study:

- **Labor costs:** including activities such as reporting (including data gathering), giving and receiving training, institutional policy development and review, oversight and
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management (including answering questions from employees, students, parents, etc.), time spent interpreting regulations, preparing and implementing operational changes, responding to potential issues of non-compliance, interacting with regulators and auditors, and any day-to-day activities resulting from the practical impact of regulations.

- **Non-labor operating costs:** including any outsourcing of the above activities to external vendors; external trainings and conferences (including travel costs); materials, supplies and services to support the above activities (e.g., equipment, facilities); software licensing fees; and fees associated with permits, licenses, applications and registrations. Taxes, penalties and benefits paid were not included in cost estimates (e.g., FICA, ACA, ERISA).
- **Indirect costs of labor** were estimated based on labor costs: the ratio of specific categories of indirect costs to total institutional labor was determined and applied to the estimate of compliance-related labor costs. Specific categories of indirect costs included utilities, operating leases, minor equipment (e.g., computers), insurance, professional development, recruitment, travel, telephone, office supplies, computer software, printing, postage, freight and shipping, courier service, direct mail, memberships and subscriptions.

Guiding Principles

The following principles were used as guidelines to determine if an activity is required to comply with federal regulation:

- The institution would have been ineligible for a U.S. federal program if it had not performed the activity;
 - The institution would have stopped receiving a U.S. federal benefit if it had not performed the activity;
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- The institution would have risked violation or penalties under U.S. federal law if it had not performed the activity; and/or
- The institution performed the activity to determine whether any of the above items applied.

Costs associated with maintaining both regional and specialized/programmatic accreditations have also been included in this study. Regional accreditation, and some programmatic/specialized accreditations, is required for access to certain federal dollars (such as Southern Association of Colleges and Schools for Title IV federal student aid eligibility or Accreditation Council for Graduate Medical Education accreditation for the School of Medicine for access to Direct Graduate Medical Education funding), while other programmatic accreditation is required for professional licensure.

Additionally, costs were considered even if Vanderbilt would have chosen voluntarily to perform the activity in the absence of regulation; no distinction was made in costs that were incremental to what the university would do in the absence of regulation.

Measurement Approaches

Different approaches were utilized to estimate centralized and decentralized costs.

- For centralized costs, the assessment team worked with senior administration to identify relevant regulations and to identify offices involved in compliance. They estimated compliance costs in each relevant office through approximately 150 interviews by estimating staff time spent on compliance-supporting activities for fiscal year 2013-2014 in either units of time (e.g., hours, days) or in terms of percent annual work time. Time estimates were paired with each employee's salary and benefits data.
 - For decentralized costs, the assessment team administered a survey to estimate compliance costs from academic departments. The survey was distributed to all faculty and academic administrative staff and yielded 975 responses for a 26 percent response rate. Survey responses were scaled-up within various segments (e.g., research vs. non-research individuals, by school, etc.) to account for different
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compliance burden patterns in order to arrive at a total estimate for decentralized costs across the institution. Survey questions were detailed with example compliance activities to promote consistent and accurate collection. Respondents were asked to estimate hours spent on specific activities and were given the option to choose the timeframe as per week, per month or per year. All faculty and staff in academic departments, including both administrative and research staff, were asked to self-report their own compliance estimates. Faculty were asked to estimate on behalf of post-docs in their research group; other trainees (e.g., graduate students, undergraduates) were estimated by faculty respondents leading research teams.

If compliance costs were incurred with irregular frequency (e.g., preparation for an accreditation site visit), costs were amortized across the entire cycle and estimated to reflect the annual average. When costs were incurred partially due to federal regulation, a portion of the total cost was allocated to compliance based on the respondent's best estimate. Likewise, costs were required to be mutually exclusive and could not fulfill multiple regulatory requirements. If an activity was believed to fulfill multiple requirements, respondents either allocated costs between multiple regulatory areas or assigned the cost to the regulation with which the impetus of the activity most closely aligned.

Results

The assessment found that Vanderbilt's cost of federal compliance and accreditation was approximately \$146 million for the 2013-2014 fiscal year, which accounted for approximately 11 percent of the institution's nearly \$1.4 billion total non-hospital operating expenditures. Research-related compliance accounted for approximately 80 percent of the university's overall federal compliance costs at \$117 million, while compliance related to higher education-specific regulation and accreditation was found to cost approximately \$14 million. Compliance with general regulations that apply to all sectors, such as human resources, immigration, finance, etc., accounted for an additional \$14 million.

Compliance costs estimated at ~ 11% of total expenditures

	Total cost of compliance estimate (\$M)	% of 2014 VU expenses, non- clinical (\$1,365M ⁷)
Centralized compliance costs	~39	~3%
Decentralized compliance costs	~107	~8%
Total	~146M	~11%

The assessment also found that approximately 70 percent of federal compliance costs are decentralized across a broad swath of faculty, research staff, administrative staff and trainees in academic departments. Faculty time comprises over half of the total decentralized costs. Thirty percent of costs are centralized and contained in specific offices. Additionally, there was significant variation in costs between research (17 percent of relevant expenditures) and non-research areas (4 percent of relevant expenditures).

⁷ Total expenses (3.754M) less health care services (2.398M)

Significant variation in costs between research and non-research areas

Total compliance cost			
Total compliance cost		\$146M	
Total FY14 VU expense (non-clinical)		\$1,365M ⁸	
% of total		11%	

Research-related compliance cost		Non-research related compliance cost	
Research-related cost	\$117M	Non-research related cost	\$29M
FY14 research expense	\$679M	FY14 non-research expense	\$686M
% of research expenditures	17%	% of non-research expenditures	4%

Cost by Regulatory Area

Grants and contracts management was found to have the largest percentage of compliance costs at \$61 million, or approximately 42 percent, while research/human participation-related compliance and environmental health and safety compliance were also found to underlie a substantial cost of compliance at approximately 20 percent and 8 percent, respectively, of total compliance costs. Accreditation was found to be 6 percent of total compliance costs, with programmatic accreditation accounting for two-thirds or 67 percent and regional accreditation accounting for one-third or 33 percent of accreditation costs.

Conclusion

In order to participate in productive conversations and efforts related to the cost of higher education for students and families, it is important to have a clear and accurate understanding of all of the variables that contribute to that cost. Vanderbilt undertook this study in part to inform its own internal examination of its costs and how best to manage them in support of students, faculty and the public.

⁸ Total expenses (3.754M) less healthcare services (2.389M)

This effort is not intended and should not be interpreted to be a criticism of the federal government and its oversight of higher education. Federal oversight is critical both to the university as educators and researchers and to students, families and taxpayers. Nor is this study meant to be the definitive word on regulatory costs at colleges and universities. Rather, the aim of this analysis is for Vanderbilt, as an institution, to fully understand the cost of federal regulatory compliance and to present data and a methodology that can contribute to the broader discussion about the current federal regulatory environment and its impact on higher education in the United States.
