I. BACKGROUND

A. **MSU policy allowed up to 20% additional compensation from grants:** MSU’s Additional Compensation policy has allowed the payment of additional compensation up to a maximum of 20% of the base salary from extramural funds, including federal grants, subject to the university and the granting agency’s approval. There are approximately 40 faculty members and research staff regularly receiving additional compensation paid from federal grants under this policy.

B. **President Cruzado and Provost Potvin requested a review of this practice:** When President Cruzado and Provost Potvin came to campus, they noted that the additional compensation practice at MSU was different from the practice at their previous institutions. They requested that a review be conducted to determine if the MSU additional compensation policy was consistent with best practices.

C. **Experts determined MSU was at risk of non-compliance with federal regulations:** MSL retained legal and management experts in grant management to review MSU’s additional compensation policies for compliance with federal regulations and best practices at other research institutions. Based upon the advice and information received from these experts, MSU is discontinuing its practice of allowing additional compensation to be paid from federal grant funds to avoid the risk of non-compliance with the most recent interpretations of federal accounting rules.

D. **MSU will revise its compensation plan to meet federal guidelines and incentivize faculty:** MSU will revise its additional compensation policy and will develop a system of compensation that will be fully compliant with federal regulations while building salary incentives to continue its high level of faculty research activity. The plan for the future listed below addresses these topics.

II. THE PLAN FOR THE FUTURE

A. **Short-term**

1. **No change in paychecks:** Currently approved additional compensation from federal grants will continue, but the additional compensation will not be paid from federal grant funds. The university will use an alternative funding source from non-appropriated funds. This change of funding source was implemented with the July payroll paid on August 11 and will continue until the revised policies are in place. Current additional compensation recipients will notice no difference in their paychecks.

2. **MSU is consulting with federal sponsors:** MSU has recently consulted with its major federal sponsors to discuss the University’s past additional compensation
policy and practices. The sponsoring agencies are in the process of considering this information. MSU will continue to work with them to determine if any further action is necessary to address past practices.

3. **MSU will only approve additional compensation consistent with federal accounting guidelines:** MSU cannot approve any new requests for additional compensation paid from federal funds, except for those that are consistent with federal accounting guidelines. Therefore, additional compensation will not be approved except as outlined in OMB Circular A-21, J. 10. d. 1: “in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the consultant is in addition to his regular departmental load. . . . provided that such consulting arrangements are specifically provided for in the agreement or approved in writing by the sponsoring agency.”

4. **Summer salaries will continue:** Faculty will continue to be allowed summer salary paid from federal funds in a manner consistent with the MSU policy and federal rules.

**B. Long-term**

1. **MSU will create a long-term compensation program:** Although MSU can identify a source of non-federal funds for a period of transition, MSU must create a long-term program to address compensation needs in a high research-active university.

2. **MSU will hire compensation experts for assistance:** MSU will need the assistance of compensation experts to design a program compliant with federal regulations while maintaining appropriate incentives for excellence in research, consistent with the university’s designation as a “very high research activity” university.

3. **This project is anticipated to be completed before the end of the academic year:** It will be necessary to go through the RFP process for such services. The University and the consultants will take input from faculty and relevant shared governance councils in the development of any new policies as well as provide updates on its progress. It is anticipated that this project will be completed before the end of the academic year.

4. **Faculty and the university will benefit from these changes:** The benefits to faculty and the institution from these changes are: The University maintains its excellent working relationship with federal agencies that provide grant funding. The University operates in accordance with the best practices of other “very high-research activity” Carnegie institutions. The University establishes a
compensation plan that rewards faculty for excellence in research through a coherent, campus-wide salary structure as it relates to research grants.