

Facilities and Administrative Issues: Paying for Administration while Under the Cap, Maximizing Recovery, and Communicating Value

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ABSTRACT

Doing more with less has become the mantra of research administration. Even when an institution is fortunate enough to negotiate an increased Facilities and Administrative (F&A) rate, the victory is bittersweet because researchers feel they must bear the burden of increased overhead costs as a reduction of the funds available to cover direct costs. While communicating the value of F&A to researchers is critically important, we are increasingly called upon to justify those costs to external constituents, including sponsors, legislators, and taxpayers. University administrators must be armed with information to advocate for increased research funding to adequately fund the costs of research and reduce the administrative burden on our researchers. An important aspect of that knowledge is an understanding of how the recovery of indirect costs reduces that administrative burden and thus maximizes the intellectual capital at the nation's universities.

INTRODUCTION

Perhaps no other category of funding for the research enterprise is more misunderstood, maligned, and generally resented than indirect costs, even though without the recovery of those costs, the infrastructure for research could not be sustained on college and university campuses. Facilities and Administrative (F&A) costs are often referred to by principal investigators as the overhead "tax" on research that is grudgingly added by researchers to budgets as mandated by their institutions and as allowed by sponsors. That general disdain extends beyond our campus perimeters to sponsoring agencies and even Congress. In a study conducted by Cole (2007) assessing faculty perspectives on the research administration system, the most overwhelming positive response to a list of probes on improving relationships between faculty and administration relative to research administration revealed that almost 68% of faculty requested

that a significant portion of the indirect costs recovery be returned directly to the college, department, and principal investigator.

As a prelude to its 50th annual meeting, the National Council of University Research Administrators (NCURA) hosted its first Senior Leadership Summit, convening representatives from 35 research institutions on November 1, 2008 in Washington, D.C. Teams composed of the chief research and chief research administration officers participated in a day-long forum, including plenary and breakout sessions addressing the topic, *Aligning Services, Resources and Institutional Mission to Enhance Faculty Research Productivity and Competitiveness*.

Teams of facilitators led interactive sessions on specific issues, including Facilities and Administrative (F&A) costs. The facilitators set the stage for the discussion by framing the challenges faced by research institutions that are dealing with the increasing burden and cost of research compliance in a era of capped administrative costs, and additional restrictions on F&A costs recovery collectively driving the “do more with less” culture. The thrust was to emphasize good practices, to arrive at potential solutions, and to devise an action plan for the path forward. This article describes the discussions among participants in sessions on the topic of F&A costs recovery.

BACKGROUND

The first acknowledgment that commercial cost principles were not easily applicable to colleges and universities that were organized and operated in a significantly different manner than commercial entities came with the publication of the *Explanation of Principles for Determination of Costs Under Government Research and Development Contracts with Educational Institutions* or “Blue Book” by the Office of Naval Research in 1947. That document served as the basis for OMB Circular A-21 (White House, 2000). Prior to issuance of Circular A-21, federal agencies maintained their own cost recovery policies. A White House (2000) study documented the analysis by the Office of Science and Technology Policy of F&A costs at universities and chronicled the history of policies related to the recovery of F&A under federally sponsored research. The Office of Management and Budget’s issuance of OMB Circular 21 in 1958 represented a government-wide effort to harmonize cost principles across federal sponsoring agencies.

A-21 provided the definitions for direct and indirect costs and set standards for accountability, documentation, and consistent treatment of costs. Over the years, A-21 has undergone numerous revisions and clarifications relative to F&A costs, most notably:

- 1979—Established Modified Total Direct Costs (MTDC) as the basis for calculating indirect costs
- 1982—Made allowable interest costs directly associated with debt resulting from buildings and equipment supporting research
- 1986—Established fixed allowances for departmental administration
- 1991—Implemented the 26% cap on the administrative portion of the indirect costs rate
- 1993—Aggregated seven cost categories into Facilities and Administration and required disclosure of cost accounting practices
- 1996—Major revisions to A-21 resulted in references in A-21 as indirect costs were replaced by F&A costs, implemented the requirement for filing DS-2 Disclosure

- Statements, raised the threshold for capitalizing equipment from \$500 to \$5,000, and mandated that the F&A rate in effect at the time of the award was in effect for the life of the award
- 1998—Adjusted the utility costs recovery to 1.3% in lieu of special cost studies (White House, 2000)

Congressional interest in F&A costs has not waned since the late 1980s when allegations of overcharging the federal government by universities through indirect costs recovery were publicized. Those initial inquiries resulted in the 26% cap on the administrative component of F&A costs. Between 1995 and 1997, the House Committee on Science again sought ways to increase the amount of funding supporting direct costs by reducing allocations for indirect costs by 10%. The Senate Committee on Labor and Human Resources did not support that reduction and instead focused their concerns on the disparity among rates paid by federal sponsors of university research compared to the rates paid by non-federal sponsors (White House, 2000).

The RAND Science and Technology Policy Institute compiled and analyzed data for the Office of Science and Technology Policy, providing options for consideration by Congress that included establishing a database containing information on research F&A costs to be implemented and maintained by the federal government using MTDC as the basis for comparison (White House, 2000).

During the almost 20 years since the imposition of the 26% cap on administrative costs, most research institutions have far exceeded that threshold and thus are making significant cost commitments in support of federally funded research. The White House (2000) study estimated the underrecovery by universities at that time to be between \$.7 and \$1.5 billion based on negotiated F&A rates. Adding insult to injury, appropriations language implemented in November 2007 for FY 2008 federal appropriations limited reimbursement of indirect costs by the Department of Defense (DoD) to 35% of a grant's total value (Kramer, 2008). This equates to an MTDC-based rate of approximately 53.8%. Under such restrictions, indirect costs exceeding that amount are unallowable and those costs must be borne by the institution as well as the administrative costs associated with the additional accounting and recordkeeping needed for compliance (Kramer, 2008). Kramer (2008) cited an analysis of National Science Foundation (NSF) expenditures data conducted by the American Association for the Advancement of Science (AAAS) in asserting "Universities themselves have become the second largest source of support for on-campus research, providing 20%, or \$9.3 billion, of all funding for FY 2006" (p. 32). The Council on Government Relations (COGR) estimated that \$3 billion of this cost-sharing is attributable to the underrecovery associated with the cap on administrative costs. Universities are not alone in their frustration. John Marburger, Director of the White House Office of Science and Technology Policy under the George W. Bush Administration and former president of the State University of New York at Stony Brook, stated, "If the indirect recovery rates are set too low, the universities have to put some of their tuition or endowment dollars into the pot. If you have to pay a dollar of your own money [for every \$3 in grant money], you can only afford a limited amount of that kind of work" (Marburger, as quoted in Munro, 2007, p. 58).

DISCUSSION

Leaders at the NCURA Senior Summit explored the issue of indirect costs with the goal of developing an action plan to address what many perceive to be a significant threat to the research

enterprise. The dialogue revolved around several themes: a) the need to educate legislators, the public as well as our own governance, senior administration and faculty about indirect costs; b) the debilitating effects of the administrative cap coupled with the rising burden of compliance; c) identifying good practices; and d) developing systematic methods of calculating the cost of conducting research to make the concept of indirect costs more understandable and transparent.

Most participants believed that science has lost its allure with Congress over the past decade and that U.S. competitiveness has been weakened as a result. Scientists in Congress and our “science superstars” (researchers on our campuses conducting transformational science who are also adept at conveying their science in “lay” terms) need to be engaged as partners in promoting the value of research and in educating legislative staff. Governors could be valuable allies and many are already proponents because they understand the linkage with economic development.

There was consensus that research administration units have been “efficienced to death” in the face of exponentially increasing compliance burdens that are estimated to have doubled over the past two decades while resources have not kept pace. Participants pointed out that universities not only suffer from the underrecovery resulting from the administrative cap but must also endure the “double whammy” when the concomitant cost sharing is included in the institutional organized research base for its indirect costs calculation and, in effect, drive the calculated rate downward. There was widespread agreement that the cap on administrative costs needs to be eliminated or at least raised to 30% or more and that institutions, particularly researchers, might gain greater benefit from being able to direct-charge administrative costs as suggested by the Federal Demonstration Partnership (FDP) as a conclusion from their Faculty Burden Survey (Decker, 2007).

The faculty committee of the FDP conducted a nationwide survey of researchers engaged in federally funded research which demonstrated definitively that researchers spend 42% of their research time on federally sponsored projects in the performance of administrative tasks associated with compliance and reporting requirements (Decker, 2007). Participants in the discussions urged further study to recalibrate the burden in a manner so as to disaggregate by disciplines. The ability to direct-charge administrative support would reduce, but not fully eliminate, the administrative burden on faculty.

In 2007, Congress imposed a limit of 35% of total direct costs (TDC) on the recovery of F&A costs on contracts funded by DoD agencies. While most institutions represented at the Senior Summit were not affected by the DoD cap on indirect costs, underrecovery of indirect costs is not uniquely a product of the administrative cap. Many federal agencies such as the U.S. Departments of Agriculture (USDA) and Education, as well as state agencies and foundations, limit or prohibit the recovery of indirect costs. While industry sponsors may push back on reimbursing indirect costs, institutions remain stalwart, insisting on full recovery of the costs of research funded by for-profit sponsors. Many believe accounting systems employed by universities should allow for flexibility to bill industry using “loaded” labor rates that are more easily correlated to industry models of budgeting. Some institutions charge industry sponsors their “uncapped” rate or other premiums to ensure full recovery of costs.

All agreed that indirect costs are not well understood by internal or external constituents and many have formal educational programs for legislators as well as researchers and institutional administrators. Land-grant institutions need to educate their agricultural experiment station

directors on the topic. Many believe we should engage leaders of the science societies, such as the Federation for Societies of Experimental Biology (FASEB), in educating our researchers on the value of full indirect costs recovery. Some institutions have formal programs for informing legislative staff about policies, the impact of increasing regulatory burden, and the burgeoning cost of compliance. While the FDP Faculty Burden Survey provides evidence of the administrative burden that depletes the time our researchers have to devote to their science, more concrete documentation of the full cost of research compliance is needed; participants urged COGR to continue their efforts to longitudinally assess the costs of compliance at their member institutions through their annual survey. The goal is for researchers and administrators to speak with one voice.

When asking the federal government to either support direct charging of administrative support or raise the cap to accommodate indirect support to researchers, universities must examine their own policies and practices. Often, the vice president/chancellor for research does not control how indirect costs recovery is reinvested into the infrastructure supporting research. Senior administrators, faculty, and sponsors do not fully understand or trust that indirect costs truly support the costs of research. Using indirect costs recovery to fund administrative support as a component of start-up funding for new faculty, rewarding full recovery of costs in returning indirect costs recovery directly to researchers, and reallocating center support to directly support administrative costs are ways universities can alleviate the burden. Providing training support for administrative staff through professional development leading to certification can reassure federal agencies that their investment in administrative support is well placed.

While research universities depend on research for critical infrastructure, by definition, research is not a profit-making enterprise for universities. Some universities have set up research administration units as separate entities, such as research foundations. While some fear questions regarding whether tuition is being used to support the deficit in research costs recovery, others believe that research programs add value to the educational experience of students, especially graduate students, and therefore defend the perception or actual subsidy of research from tuition costs. Universities must be prepared to educate legislators, the public, and internal constituents.

RECOMMENDATIONS

The discussion was designed to make concrete suggestions for a plan of action that should be pursued aggressively.

1. In light of the recent recommendation by the National Science Board (NSB) (2009) that the administrative cap be revisited, the federal government should consider raising or eliminating the cap on the administrative component of the F&A rate. The NSB (2009) recognized that the result would “likely enhance the ability of institutions to strategically and flexibly plan, invest in, and conduct research projects and programs and promote equity among grantee institutions in NSF funding competitions” (p. 2). In addition, restrictions imposed by federal agencies, especially USDA and the U.S. Department of Education, and the requirement of including cost-sharing in the institutional base should be reconsidered.
2. Universities should pursue reinstatement of direct charging of administrative support for research. This will serve researchers well by reducing the time they must spend

on administrative tasks and would provide a cost-effective strategy for federal sponsors.

3. Universities must do their part to address the deficit by ensuring non-federal sponsors, including state agencies, pay a fair share of indirect costs and explore ways to ensure transparency in how indirect costs are reinvested into the research infrastructure.
4. Universities should employ accounting systems that accommodate alternate ways to charge and allocate costs to projects, especially those funded by industry, and to also collect systematically all costs associated with research.
5. Researchers and administrators must speak with one voice in representing the value of and need for indirect costs and the exigent need for increased recovery. Educating Congress and legislative staff members on the practices associated with funding research must be a priority.

“Federally sponsored research is fundamentally a partnership between the Federal Government and institutions performing the research” (National Science Board, 2009, p. 1). As such, it is imperative for both partners to come together and reach agreement on how to maximize research time and ensure proper stewardship of the investment made by our federal sponsors for the benefit of research and the United States’ positioning for global competitiveness.

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