Review Of Indirect Cost Recovery Distribution Practices

Conducted for the University of Alaska by David C. Maddox
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Introduction

Each federal research grant carries with it indirect cost recoveries (ICRs), now called Facilities and Administration costs (F&A), in addition to payment for the direct costs of research. While the institution's indirect cost rate itself is derived from a well-defined federal methodology and is reached through extensive negotiations with the federal cognizant agency, once the rate has been set the federal government does not control how the receiving entity spends those funds. This leaves colleges and universities free to decide for themselves how to allocate them. Not surprisingly, this regulatory environment results in a wide variety of practice with regard to how institutions allocate, distribute, and spend ICR/F&A funds.

The University of Alaska is revisiting its policies for distribution of ICR funds. The University wants to state clear principles that will form the basis for the mechanisms it has in place. It wants to do this with a view for prevailing practices around the country.

A principles-based approach to establishing an ICR allocation process has clear benefits. It makes it easier to explain internally and externally how these funds are used to benefit the University's mission and the State of Alaska. It can also provide a basis for judging the success of the allocation system according to the achievement of desired outcomes described in advance. It should be noted that many universities have not articulated the principles behind their ICR distribution system. In some cases the system was largely based on internal political considerations, and in other cases the principles are implicit

but not clearly stated. Principles may have driven decisions, but over time a system has become just part of the administrative landscape.

ICR funds come into the University of Alaska at the MAU level. The Statewide office currently receives 12.8% of the funds as general support to Statewide operations. The remaining 87.2% is distributed within the MAU. Each MAU has a different system for allocating funds. UAF, with by far the majority of ICR funds (about 90%), has a long-used formula for distributing funds to several units that support research and to general administration. 55% of funds at UAF flow back to the units which conducted the research, with the remainder allocated to Physical Plant, UAF Sponsored Programs, the VC of Administrative Services, and the Library. Recently, to accommodate funding for the West Ridge Research Building, various units contributed a portion of their ICR to meet the debt service obligation. UAA and UAS have more complicated systems in which 36%-74% of the funds the MAU retains get returned to the originating units.

The ICR distribution practice throughout the UA system implies two overarching principles. One of these is for the University's use of ICR funds to encourage additional research. A further principle is that of decentralization, allowing each MAU and each department to make its own decisions on the best way to utilize ICR funds.

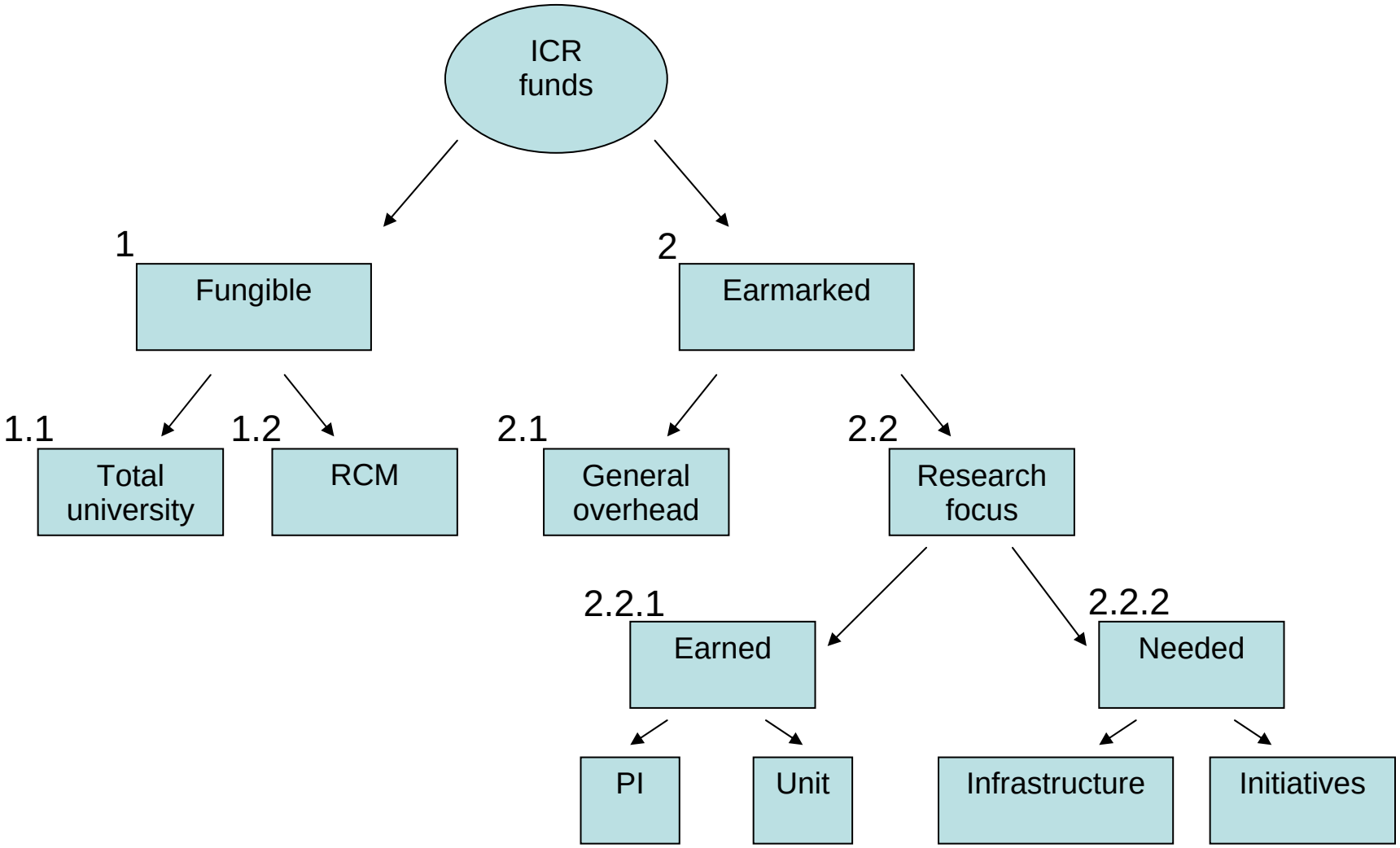
Given the freedom universities have in utilizing ICR funds, one finds a large number of approaches. One general statement one can make about ICR distribution practices is that there has been very little empirical research on the effectiveness of various approaches. In most cases, institutions feel satisfied with the effectiveness of their systems, but it seldom appears to be the case that an institution conducts a formal internal assessment of how well its system achieves its goals. More importantly, I was unable to find research that compared results across institutions, which would provide stronger indications of the relative success of various systems and would identify variations in performance linked to institutional characteristics or history.

Principles for ICR distribution

All universities follow some principles in their ICR distribution systems, although the principles are often implicit. Furthermore, most universities have a system that involves a combination of principles. The generic practices and associated principles of ICR distribution are as follows. These are summarized in the diagram on the following page.

Practice: Fungibility
Goal: Enhance immediate fiscal soundness
- *Principle*: ICRs are unrestricted funds, so stay flexible in their use by treating them as general revenue.
- *Principle:* Use ICRs to compensate for cuts in general funds.

Principles for ICR Distribution



Practice: Earmarked for general overhead
Goal: Enhance basic fiscal soundness/increase diversity of funding base
Principle: ICRs are calculated based on the recovery of overhead costs and therefore should go back to those overhead purposes.

Practice: Earmarked, directed to PIs or units that conducted research
Goal: Increase funded research
Principle: Reward departments, centers, and schools for success in fostering research.
Principle: Reward PIs for success in building funded research.

Practice*:* Earmarked for support of research
Goal: Maintain competitiveness
Principle: Use ICRs to build and maintain the physical infrastructure for research.
Principle: Use ICRs to support the shared resources used in research.
Principle: Support a vigorous research administration function to advocate for research.
Principle: Use ICRs to fund new research initiatives.

Several considerations

Several considerations may go into the design of a system

Align individual incentives with university goals

The primary focus of incentives is on the behavior of researchers, whom the university wants to encourage to pursue external funding, and the leaders of their home units which the university wants to encourage to support those researchers. Returning funds to support the researcher should have obvious reward effects. However, in evaluating any incentive, one has to assess it in light of other incentives and motivations. A proposed incentive may not add significantly to existing incentives or it could work in ways that offset others.

Support university goals effectively

Universities have a large number of concurrent goals (not all complementary). This means that very different solutions may all support university goals. The assessment of effectiveness is largely a judgment call by university leadership.

Gain political acceptance

The system must be supported by the university community at many levels. This includes the researchers in fields which receive external funding, but also scholars in

fields like the humanities which receive less support. Deans, external constituencies, and many others have political weight that may need to be factored in.

Possible Recipients of ICR Funds

Funds may be directed to functions or organizational levels. The University of Alaska has already identified the following units and uses that might need support from Indirect Cost Recovery:

- Buildings/improvements
- Interest
- Equipment and services
- Operations/maintenance
- Library research stock
- General Administration
- Departmental Administration
- Sponsored Projects Office
- Maintenance of research
- Ensuring excellence

This list matches the range of functions one finds receiving funds in other institutions' distribution formulas. One function to add to this list may technology transfer (probably assumed to be included within one of the categories above). The more important observation is that most schools which do direct funds to functions do not earmark funds for all of these functions, but for some subset of them.

Many institutions define their distribution scheme on the basis of organization levels. The following are some of the organizational levels which might receive funding:

- System – general
- System – Research Office
- Campus president/chancellor
- Provost
- VP/VC of Research
- Dean
- Department or Research Center
- Principle investigator

Review Of Distribution Practices And Principles

1. Fungibility

The first and most significant division in principles is whether ICR funds are treated as fungible general funds or are in any way earmarked. From a legal perspective, ICR funds come to the university with no strings attached. One allocation principle therefore acknowledges the lack of restrictions on spending and follows the principle that an institution should maintain the maximum amount of flexibility in application of funds, given that many sources of funds come with specifications on their use, such as many endowments or the direct costs of grant-funded research. Unrestricted funds have value because they can be used to fund general overhead and to respond to requirements across the university and to pursue new opportunities.

In addition to supporting institutional flexibility, treating the funds as fungible is consistent with one view of the purpose of reimbursement for indirect costs, which is to make sure that universities have sufficient funds to pay for necessary overhead functions without which they would not be organizationally viable. While costs such as central administration or general use facilities (e.g., the driveway from public roadways into campus) are generally not incremental in relation to a particular research grant, they are necessary for it. Shifting costs to other fund sources may occur, but it becomes harder to sustain as an institution increases research as a percentage of total activity. Viewing ICR as overhead reimbursement does suggest treating it as fungible revenue.

In general, private universities treat ICR funds as fungible revenue. One finds two general patterns depending on whether the institution has a centralized budgeting system or uses a variation on Responsibility Center Management. A centralized budgeting system will treat ICR funds as part of the university's general revenue, like unrestricted endowment or gifts. While the university might well make funds available for research support and start-up costs, the typical practice at private universities is to establish the budgets for those uses based on an assessment and balancing of needs, as opposed to tying it to the volume and source of ICR funds.

In institutions operating under an RCM system, this practice simply gets translated to the lower organizational level of the Responsibility Center. In RCM systems, revenues associated with a school, college, or division generally flow to that unit. These would include tuition, directed giving, and ICR funds. At that level, the Responsibility Center would be free to apply those funds as it chooses. It might provide research incentives such as funding for start-up packages, or provide research support linked to ICR revenue in some way, although it is just as likely that the Dean would apply the principle of maintaining flexibility and fungibility within the Responsibility Center.

One advantage of treating Indirect Cost Recoveries as fungible is that it avoids any risk of funding distortions that can come from earmarking funds for specific functions. The arrival of several large new grants could leave the functions that receive ICR funds with more money than they need, an especially frustrating situation if the institution is

otherwise resource-constrained. This is less problematic if there is clarity and agreement on how funds are used by the units that receive them.

As noted before, treating ICR funds as fungible revenue prevails at private universities. Of 7 private research universities reviewed for this report, 5 treat these funds as fungible within the context of their budgeting system. On the other hand, very few public universities follow this practice.

- Of 37 public institutions reviewed, only one (Oklahoma State) treated these funds as fully fungible and held at the university level.
- The University of Michigan returns all of its ICR funds to the school, college, or research institute that earned the funds, but this is within the context of a Responsibility Center budgeting system.
- The University of California Berkeley has a system that in the main follows a fungibility principle. 6% of ICR funds are held at the system level by the UC Office of the President. Of the 94% returned to the campus, the UCB Chancellor retains 70% of the funds and 30% returns to the Organized Research Unit (ORU) that conducted the research.
- The University of Massachusetts holds 70% of funds centrally and distributes the rest to departments and schools, suggesting that the fungibility principle holds; the University of New Hampshire returns 66.5% of funds to the Responsibility Centers that received the award.
- A few more of the universities reviewed have established something close to a 50-50 split between the university's general administration and the units conducting the research (these include Texas A&M, Minnesota, and Cincinnati). Those cases can be seen as a partial adoption of fungibility to balance multiple goals.

All other public universities surveyed have systems in place in which they direct more than half of the ICR funds to the units that earned them or to specific units and purposes within the University.

The reasons for this difference in practice seem to lie in the differences of governance between private and public universities. Private universities, operating independently of legislative oversight or externally appointed boards, bear less onus to defend their use of the funds they receive, and do not negotiate with legislatures for appropriation funding. For a public university to work outside some sort of formula or system of designating uses of the ICR funds bears unacceptable risks such as the possibility that the legislature will see increases in ICR funding as an opportunity to reduce state appropriations. While the fiscal principle of maximizing flexibility in allocation of funds is sound, its application in this case could have the result of reducing total resources to support a public university's mission.

Stanford, MIT, and Chicago

Stanford and MIT both treat ICR funds as general revenue to the University which is then distributed in their normal, centralized budget development process. At Stanford, two formula-based units, the schools of Medicine and Business, retain their ICR funds. In both institutions, support of research is funded from a variety of sources. When asked about the incentives to researchers to pursue grants, Vice Provost Tim Warner of Stanford argued that the incentives are "embedded into what it means to be a faculty member" at Stanford. The University of Chicago is organized on a Responsibility Center basis in which each academic division stands as a separate center. In the University's budgeting system, all of the ICR funds are associated with the school conducting the research that generated the funds. University of Chicago faculty report that informal factors such as influence within one's department and division drive the incentives to pursue external funding for research.

Contacts
Stanford: *Tim Warner, Vice Provost for Budget and Auxiliaries Management*
MIT: *John Donnelly, Senior Budget Officer*
Chicago: *George Searles, Senior Budget Analyst*

2. Earmarking funds

In general, public institutions will have a system for ICR allocation which earmarks or directs those funds to some units and/or expenditure types. As has been noted, these systems vary greatly from institution to institution.

One of the differences between approaches takes us back to the discussion of fungibility. Should general funds and ICR funds be treated in a similar manner and used for similar purposes, or do the two types of funds have different purposes? Even if one decides that the two streams of revenue are similar, one could earmark the ICR funds for specific overhead and other functions. One example would be to distribute the ICR funds to units in the same proportions that they contribute to the cost pool used to calculate the F&A rate.

The other approach is that general appropriations and ICR funds have fundamentally different purposes. Several institutions argue that the general appropriation is for the support of instruction and public service. These universities argue that the appropriation, tuition, and other general revenue sources should be sufficient to support the full costs of the public function of instruction, including overhead. This principle could be cast in terms of saying that if a public university does nothing else, it must provide instruction; the institution incurs its basic overhead costs first to support this mission. Therefore, the sources that would support that basic mission should take full responsibility for making sure adequate resources are in place, overhead and all, rather than relying on subsidies

from other sources that may be less reliable or out of the control of people in the state. This approach can be a tool for counteracting any tendency by a legislature to reduce funding in the face of improvements in external funding for research.

In this view, ICR funds relate specifically to the separate purpose of promoting a robust research program which has different but significant benefits for the state. State governments fund much less research than external sources. Therefore, ICR funds become a key method for funding and expanding research. One might factor in the amount of state support for research in determining how much of the ICR funds need to go back to research to maintain research competitiveness.

2.1 General overhead

As noted above, the principle that ICR is paid to support general overhead argues that it should be spent more or less in proportion to the values in the cost pool. A system that supports the general infrastructure of the institution would in theory be closest to the concepts behind the generation of the cost pool and the indirect rate.

The University of Illinois works under a State mandate that it spend its ICR funds "in proportion to how it is generated" which results in 70% of funds being retained centrally for administration, O&M, and the library. I did not contact the University directly so I do not have details on whether the funds further are directed to specific cost pool elements.

The University of Washington appears to do something similar in distributing its F&A funds across the functional elements that align with the rate proposal. The University explicitly states in documents that the F&A funds generated by the Buildings and Improvements component of the rate "were used for the renewal of older buildings and their major components such as roofs, plumbing, and electrical distribution systems."

Many of the institutions that retain a significant share of funds for general administration do so in the recognition that fixed overhead needs support and that some portion of it is in fact incremental to the research programs. Generally these institutions do not appear to have attempted to define precisely the extent of the incremental portion of overhead functions (which would likely require a methodology that relies heavily on estimates).

2.2 Support of research

Most of the public universities reviewed in this study have a system that differentiates, in whole or in part, ICR revenue as funds related to research. Within a system that sees the primary purpose of ICR funds as support and promotion of research, the major difference one finds is between systems that emphasize return of resources to the parties who earned the resources, and systems that emphasize using the funds where they are needed. Again, most systems contain a hybrid of elements.

Some of the specific activities identified as support of research include:

- Pre- and post-award sponsored research administration

- Research facilities costs
- Institutional review boards
- Libraries
- Project administrative costs
- Start-up funding
- Proposal preparation
- Early pre-grant feasibility studies
- Carryover funding for research teams to provide continuity between grants
- Matching fund requirements
- Equipment purchases and maintenance
- Graduate student support
- Summer salary
- Project cost overruns
- Conference attendance and research-related travel

2.2.1 Return funds where they were earned

Funds may be returned to the principle investigator who earned the grant or to the unit he or she is associated with. The principle of returning ICR funds to the investigator who earned it is easy enough to justify. Funds returned to the investigator recognize the PI for success in securing external funding. That success increases the university's impact, contribution to knowledge, and prestige, and it offsets some other costs. Returning a portion of ICR funds creates incentives for successful researchers to pursue more funding and for those who have less external funding to emulate the successful researchers, all of which accelerates research growth. An institution might also assume that the best opportunities to increase research will be in those areas where you already have success, so it makes sense to further encourage your successful researchers.

Funds directed to the originating PI or department can be subject to several levels of restriction.

- First of all, funds are always subject to the university's purchasing guidelines.
- Funds generally must be spent in accordance with the restrictions placed on the federal cost pool, such as the exclusion of spending on alcohol.
- The university may have guidelines that ICR funds should be spend to support research. What qualifies may be left to the interpretation of the person controlling the funds or formally prescribed.

Within this approach, the university has a choice between directing funds back to the PI, making the clearest relationship between effort and rewards, or directing them to the unit that is home to the PI. In the latter case, the larger the unit and the higher level in organizational terms, the weaker the direct relationship between the PI's efforts and the allocation decision, reducing incentive effects. Funds that flow to a large research center or college with many researchers in effect face the same question the university as a whole does on whether to return funds to the PI, use them to support and promote research in other ways, or use them to cover the equivalent of overhead on a unit level.

A problem with this approach is that the rich may get richer. Returning funds to the PI does not provide funds to get other researchers into the game. It also has some potential to push the university to shape its research agenda to the interests of funding agencies rather than promote its own vision for research in a diversity of areas.

Some institutions place an additional condition that links the return of ICR funds to the percentage of total allowable indirect costs that the department received. This provides incentives to departments and divisions to request the full indirect cost recovery and not waive it where they have that option.

2.2.2 Place funds where they are needed

If returning funds to those who earn them follows a free market model that rewards successful performance, applying funds to support research can also be done within a planning context in which the university directs them to purposes that strengthen the overall research program. There is a significant split at this level between systems that emphasize support for the overall university infrastructure, support for the research infrastructure, or support for new initiatives.

- *General infrastructure*. Similar to the support for general overhead option (2.1), with the difference here that the system is expressed in terms of support for the research enterprise, not general overhead. At several schools this took the form of funding for personnel and purchasing functions that tried to identify specific incremental costs related to research activity. At institutions with a large volume of research, it may be possible, for example, to identify specific Human Resources staff positions or FTEs dedicated full-time to processing personnel actions for research staff.

- *Research infrastructure*. The typical pattern for supporting the research infrastructure involves designating a portion of ICR funds to support activities such as research administration, the library, and capital or operating costs of new facilities. Many universities include this element.

- *Initiatives*. An extremely common approach is to set aside funds for use on new or targeted initiatives. These may include start-up costs or internal competitive grants, funding for infrastructure to support priority research areas, or support for research in areas which receive less external funding in order to maintain an appropriately diverse intellectual base. Typically the campus or system Vice President, Vice Chancellor, or Vice Provost for Research administers these funds. This allows the university to align its spending with its strategic plan, rather than more passively follow the pattern of grants made by funders. This approach can be driven from any administrative level, even a department chair receiving requests for travel and registration at specific conferences.

  Some institutions weight their use of ICR funds heavily to programs that actively cultivate research. Of course, this can put the office administering the funds in the position of “picking winners and losers” which cuts against strong decentralization.

Montana State has one of the strongest programs of centralized decision-making by the Office of Research on the use of ICR funds, summarized below. Other institutions with large portions of ICR funds flowing to the Office of Research are Iowa State at 60% and Sam Houston State (Texas) at 75%.

Montana State University

Montana State has an activist research promotion program. All of the ICR funds come to the Vice President for Research, Creativity, and Technology Transfer. 45% of those funds are distributed off the top as follows: 9% to the principle investigator, 27% to the department generating the funds, and 9% to the appropriate college. The Vice President retains 55% of the ICR funds for a variety of research promotion initiatives. These include:

- Support of start-up packages. The Vice President's office tracks the return on these investments in terms of future generation of F&A funds. They report that MSU earns back its investment in start up packages within a few years in the vast majority of cases.
- Matching funds for EPSCoR, DOE, NASA, NSF Major Research Instrumentation, training grants.
- Renovation.
- New facilities. MSU has recently started using its ICR funds for new space. The first step in this direction was two years ago with the use of these funds for a long-term lease on a 40,000 SF building. MSU has just gotten authorization to initiate a new construction projection financed by 30-year bonds which will be paid off by its ICR/F&A funds.
- Internal grants to MSU faculty in the arts, humanities, and social sciences, fields with less external grant support available. The dollar amounts of the grants range from $6,000-$22,000 but have the potential for a large impact on the scholar because of the lower cost of research in these fields.

MSU has used the funds to strategically invest in certain research areas like nanoscience.

The Vice President's share of ICR funds also goes to fund several positions in the Personnel and Purchasing departments, in recognition of the incremental workload related to research activity. The Office of the Vice President makes a contribution from ICR funds to the costs of Internet2 and an information technology replacement fund.

In addition to supporting a diverse research base at the university, the arts, humanities, and social sciences grant program broadens support for the strong central role in directing ICR funds. Similarly, returning a portion of the ICR funds to the departments, schools, and the PI shores up support for the program.

See Appendix 2 for documents from MSU on their principles and guidelines.

Contact: *Dr. Tom McCoy, Vice President for Research, Creativity, and Technology Transfer*

Combinations of methods

Most institutions have a system that combines these approaches in order to compromise between the various interests on campus and to try to achieve a bit of the benefits of several approaches. Typical distribution patterns may include a portion going to the central administration, where it is used to support general overhead or directed to university-wide infrastructure and projects, another section going to units or colleges which generated the research where it both reflects a reward for performance and may be used locally to fund new initiatives or support infrastructure, and then some funds to support general research infrastructure such as sponsored programs accounting or university-level research initiatives. Several of the institutions contacted pursue a "combination" strategy; their systems are described below.

North Dakota State University

North Dakota State University splits the ICR funds from competitive grants 42% to central administration for use as general funds, 42% allocated to the colleges that earned the funds (where they may be distributed to individual departments according to policies and practices at each college), and 16% to support Research Administration. The share going to Research Administration is more than sufficient to fund its operations, leaving funds available for a program that rebates some funds back to colleges and departments based on proposals from the units. In this split one can see three purposes served: the portion for central administration follows the fungibility principle, the 42% returned to the colleges represents a performance-based incentive, and the funds held by Research Administration serve to support research infrastructure and research-related initiatives. This split has been in effect for about 10 years. Before that, several presidents in succession raised the portion going to the colleges.

NDSU follows a different policy for ICR received from earmarked federal funds, which constitute 30-40% of what the university receives. Based on a principle that earmarked funds are received based more on the initiative of the university administration than the individual researcher, 100% of the ICR funds related to earmarked grants flow to the Vice President for Research where they are used for several purposes:

- Revenue bond payments on facilities (about 40% of the total received by the Vice President for Research).

- Office of Research operating costs
- Seed money for faculty development

Contact: *Gary Wawers, Controller*

Mississippi State

Mississippi State has separate distribution formulas for its academic departments and its Extension Service (a similar distinction is in place at Texas A&M). In the academic departments, 40% of funds flow to the department generating the funds, 40% held by the central university administration, and 20% to support the Office for Research. Within the funds flowing to the department, each department has its own philosophy on use of the funds. In the Extension Service and the Mississippi Agricultural and Forestry Experiment Station, 50% of funds flow to the department and 50% to the administration of the Extension Service. These distribution percentages have been in place 5 or 6 years. Before that, departments got a much smaller portion (20%) and more went to the Office of Research. The faculty pushed for more of the money to flow back to departments so that they could put more money back into research, but it has also been used to compensate for shortfalls in state appropriations.

Contact: *Denise Peeples, Assistant Controller for Sponsored Programs*

Hawaii

The University of Hawaii is currently operating under what Vice President for Research Jim Gaines describes as a "brokered" arrangement that has been in place for two years and is up for review now. His office at the system level receives 25% of the ICR funds, the remaining 75% goes to the campus that generated them. In the past, the System held a larger portion. Most research is conducted on the Manoa campus, where the Chancellor holds one third (25% of the total) for a discretionary fund and returns the rest to the college or organized research unit that generated the ICR. At that level the policies vary by unit. Dr. Gaines says there are "as many policies as there are units." All are asked to follow the guidelines that these funds be spent on research, not general administration. The structure of the system could change during the current negotiations – faculty are more interested in services provided than in a particular percentage.

Contact: *Dr. Jim Gaines, Vice President for Research*

Funding research facilities

ICR funds are used in some cases to fund research facilities costs. This can occur in several ways:

- In a system in which ICR funds are considered fungible general revenue, of course the ICR funds can be seen as part of the pool of general revenue funds available for purposes such as new construction financing, deferred maintenance, or operations.
- In some cases ICR funds are specifically directed by formula to facilities operations and/or renovation. The University of Washington does this, basing the percentage on the portion of the negotiated cost pool that corresponds with facilities operations. There are also examples of institutions designating a set dollar amount of the ICR to go into a research facilities renewal account (e.g., Colorado State University).
- In other cases, institutions may assign specific debt service streams or lease payments to ICR funds. Montana State University has done both of these.

Results

Very little scholarly research or formal evaluation has been conducted on these methods. In some cases (say where the goals are political), research may not be necessary – if people are not complaining, the system is successful. However, for more ambitious goals, quantified results should be possible. Montana State does track its ROI on start-up packages and can demonstrate that it has been successful in selecting researchers who go on to bring in funded research that generates ICR in excess of the amount used for their startup package.

I did not find research that measured the effect of returning ICR funds as an incentive for faculty to pursue more research funding. It could be the case that researchers who succeed in winning grants would be equally successful independent of the way ICR funds are distributed. I also did not find research that attempted to link ICR allocation practices to faculty retention and morale.

Economic and behavioral research on academic scientists has tended to emphasize reputational effects and the pursuit of priority in discovery as motivations for scientific research. This is certainly the assumption expressed by administrators at Stanford and Chicago. However, academic literature on this topic is thin, and I did not find studies that address differences in faculty motivation at different types of institutions.

Conclusion

The most immediate conclusion one reaches is that there is no standard practice in distributing ICR funds. There is not a tried-and-true percentage allocation between areas, functions, and organization levels. There are a limited number of alternatives which an institution can combine in limitless ways.

Many of the institutions use simple, broad splits of the funds, like Mississippi State's 40% general administration, 20% VP research, and 40% department or Texas A&M's 50%/25%/25% split between the same areas. The University of Alaska probably does not have much to gain from investigating those systems further: the institution chooses how many slices to make and determines a split based on some combination of history and

perceived need. This is not to suggest this is a poor approach, simply that it is easily comprehended.

The University of Alaska should look most closely at those institutions that depart from this pattern.

- Montana State University has a well thought-out program that makes compromises between different uses for ICR funds but provides solid support for an assertive central voice leading the University's research efforts. Montana State has also taken great care in various documents to state their principles.
- It would be worth understanding practices at any institution that funds designated research incentive or facilities renewal programs from ICR funds. Examples include the programs in place at Oregon State and the University of Nebraska-Lincoln and under consideration at the University of Missouri.

Appendices

The following appendices are attached

1. Thumbnail descriptions of institutions surveyed.
   - Most of this institutional information was collected from university websites, as well as the institutions contacted and described above and information from a list-serv survey done two years ago by Texas A&M. In some cases the information available did not fully account for the allocation of all portions of ICR funds, but the information that was available is included.
   - Information was collected on 44 institutions (plus the extension services for 2 of these institutions). Of the 44, 7 were private and 37 public. Complete information was available for 5 of the 7 privates and 27 of the 37 publics.

2. Montana State University documents
   - "Principles for Investing Recovered Facilities and Administrative (F&A) Costs"
   - "F&A (formerly known as IDC) Guidelines and Uses"

3. Selected statements of principles or spending guidelines
   - Statements of ICR allocation principles or guidelines on their use from the following schools are attached. These documents were chosen primarily because of their clear statement of principles rather than relevance as leaders in academic research or as UA peers.
     - CSU San Marcos
     - University of Houston
     - University of Missouri-Columbia
     - University of New Hampshire
     - Oregon State
     - Western Kentucky

Appendix 1

Summary of universities surveyed

Total universities surveyed: 44 (7 private, 37 public)
Complete description of system available: 32 (5 public, 27 public)

"Research rank" indicates rank on NSF survey of "Total R&D expenditures at universities and colleges" for fiscal year 2002.

"Date of source document" based on any document date indicated on the web page.

Private Universities

Johns Hopkins

Research rank:	1
Description of ICR distribution:	70% returned to the department.
Date of source document:	n.a.
Complete description of program:	No

Stanford

Research rank:	8
Description of ICR distribution:	Held centrally as general revenue, 100% returned to 2 formula units (Business and Medicine).
Date of source document:	Interview, 2004
Complete description of program:	Yes

Penn

Research rank:	9
Description of ICR distribution:	81% returned to the division earning it.
Date of source document:	2002
Complete description of program:	No

MIT

Research rank:	15
Description of ICR distribution:	Held centrally as general revenue.
Date of source document:	Interview, 2004
Complete description of program:	Yes

Duke

Research rank:	15
Description of ICR distribution:	76% General revenue 14% Deferred maintenance 5% Instruction/shared resources 1% Tech transfer 4% Department discretion
Date of source document:	2003
Complete description of program:	Yes

Chicago

Research rank:	53
Description of ICR distribution:	Returned to division earning it as general revenue within RCM system.
Date of source document:	Interview, 2004
Complete description of program:	Yes

Middlebury

Research rank:	413
Description of ICR distribution:	Held centrally as general revenue.
Date of source document:	2002
Complete description of program:	Yes

Public Universities

Michigan

Research rank:	3
Description of ICR distribution:	Returned to division earning it as general revenue within RCM system.
Date of source document:	2002
Complete description of program:	Yes

Washington

Research rank:	5
Description of ICR distribution:	Distributed in portion to contributions to cost pool.
Date of source document:	n.a.
Complete description of program:	Yes

Minnesota

Research rank:	11
Description of ICR distribution:	51% returned to department (Incentives for Managed Growth program), 49% retained as general revenue.
Date of source document:	2002
Complete description of program:	Yes

Penn State

Research rank:	12
Description of ICR distribution:	12% returned to college, 1.5% to support research administration.
Date of source document:	n.a.
Complete description of program:	No

Texas A&M

Research rank:	17
Description of ICR distribution:	50% general administration 25% VP for Research 25% returned to the department
Date of source document:	2004
Complete description of program:	Yes

Texas A&M Ag Extension

Research rank:	17
Description of ICR distribution:	75% general administration 25% returned to department and PI
Date of source document:	2004
Complete description of program:	Yes

Texas A&M Eng Exp Station

Research rank:	17
Description of ICR distribution:	25% general administration 59% to division 16% returned to PI
Date of source document:	2004
Complete description of program:	Yes

Illinois

Research rank:	19
Description of ICR distribution:	70% general administration 25% department 5% school
Date of source document:	2002
Complete description of program:	Yes

Colorado

Research rank:	25
Description of ICR distribution:	29% to the department, based on the ratio of departmental administrative costs to all administrative costs.
Date of source document:	2001
Complete description of program:	No

Alabama-Birmingham

Research rank:	49
Description of ICR distribution:	All revenue flows to the department of the PI.
Date of source document:	1999
Complete description of program:	Yes

Cincinnati

Research rank:	57
Description of ICR distribution:	48% general administration 3% Provost 5% school/college 44% department, recommended that 25% go to PI
Date of source document:	2002
Complete description of program:	Yes

Iowa State

Research rank:	64
Description of ICR distribution:	30% VP Research 30% school/college 40% PI
Date of source document:	2002
Complete description of program:	Yes

Colorado State

Research rank:	70
Description of ICR distribution:	52.7% general administration 7.1% VP Research 40.2% school/college Less $400K research building revolving fund and $250 to the Provost.
Date of source document:	2001
Complete description of program:	Yes

Missouri

Research rank:	72
Description of ICR distribution:	75% general administration 25% department Department portion intended to go to PI. Considering starting a research incentive fund.
Date of source document:	2004
Complete description of program:	Yes

Nebraska-Lincoln

Research rank:	75
Description of ICR distribution:	10% Research Infrastructure Fund 30% general administration 30% VC Research and Chancellor 30% College VCR portion includes 5% returned to PIs on large grants (over $1M).
Date of source document:	2004
Complete description of program:	Yes

Oklahoma

Research rank:	77
Description of ICR distribution:	4% College 18% department
Date of source document:	n.a.
Complete description of program:	No

Hawaii

Research rank:	80
Description of ICR distribution:	25% System Research Office 25% Campus president 50% College
Date of source document:	Interview, 2004
Complete description of program:	Yes

Oregon State

Research rank:	81
Description of ICR distribution:	26%-42% returned to college based on overall F&A recovery. 4% for improvements to research space. 8% for research equipment.
Date of source document:	n.a.
Complete description of program:	No

Mississippi State

Research rank:	83
Description of ICR distribution:	40% general administration 20% VP for Research 40% department In Extension and Ag School, split is 50% department, 50% divisional administration.
Date of source document:	Interview, 2004
Complete description of program:	Yes

Arizona State

Research rank:	96
Description of ICR distribution:	20% School/college 5% PI Part of the school/college share goes to the department, and the VP Research retains a share of the total.
Date of source document:	2002
Complete description of program:	No

Utah State

Research rank:	97
Description of ICR distribution:	70% VP Research 30% School/college Strongly recommended that part of the school/college share return to the PI.
Date of source document:	2003
Complete description of program:	Yes

Alaska

Research rank:	98
Description of ICR distribution:	12.8% System 87.2% MAU
Date of source document:	2004
Complete description of program:	Yes

Washington State

Research rank:	99
Description of ICR distribution:	38% campus president 7% library 8% school/college 15% department Shares also go to facilities operations, research administration, equipment funds, and general administration.
Date of source document:	n.a.
Complete description of program:	Yes

Massachusetts

Research rank:	104
Description of ICR distribution:	70% general administration 10% school/college 10% department 10% PI
Date of source document:	2002
Complete description of program:	Yes

Kansas State

Research rank:	107
Description of ICR distribution:	2.5% library 45% school/college
Date of source document:	2002
Complete description of program:	No

Oklahoma State

Research rank:	114
Description of ICR distribution:	100% general university revenue
Date of source document:	2001
Complete description of program:	Yes

New Hampshire

Research rank:	115
Description of ICR distribution:	18.5% VP for Research and Public Service 2% library 66.5% Responsibility Center (mostly Colleges) 13% PI
Date of source document:	2003
Complete description of program:	Yes

Montana State

Research rank:	124
Description of ICR distribution:	55% VP for Research 9% college 27% department 9 PI
Date of source document:	Interview, 2004
Complete description of program:	Yes

North Dakota State

Research rank:	126
Description of ICR distribution:	42% general administration 16% research administration 42% department
Date of source document:	Interview, 2004
Complete description of program:	Yes

Temple

Research rank:	134
Description of ICR distribution:	5% VP Research 10% school/college 20% department 10% PI
Date of source document:	n.a.
Complete description of program:	No

Houston

Research rank:	137
Description of ICR distribution:	56% school/college 44% department
Date of source document:	2003
Complete description of program:	Yes

Houston, Institutes and Centers

Research rank:	137
Description of ICR distribution:	26% school/college 74% department
Date of source document:	2003
Complete description of program:	Yes

Oregon

Research rank:	156
Description of ICR distribution:	4% system office 26% school/college
Date of source document:	2002
Complete description of program:	No

University of North Dakota

Research rank:	173
Description of ICR distribution:	37% department There was a reference in the annual report to 50% going to an Institutional Research Fund.
Date of source document:	2002
Complete description of program:	No

Nevada-Las Vegas

Research rank:	179
Description of ICR distribution:	33% general administration 4% President 4% Provost 15% VP for Research 4% Library 40% school/college General administration portion allocated for reimbursement of appropriated funds.
Date of source document:	n.a.
Complete description of program:	Yes

Western Kentucky

Research rank:	308
Description of ICR distribution:	40% to support facilities 20% sponsored programs 40% school/college
Date of source document:	1999
Complete description of program:	Yes

Western Washington

Research rank:	323
Description of ICR distribution:	33% school/college
Date of source document:	1996
Complete description of program:	No

Sam Houston State Univ. (TX)

Research rank:	347
Description of ICR distribution:	50% allocated by VP Research 25% support Office of VP Research 8% school/college 9% department 9% PI
Date of source document:	n.a.
Complete description of program:	Yes

CSU San Marcos

Research rank:	n.a.
Description of ICR distribution:	25% to Foundation for disallowance reserve 15% to Foundation for promotion of new grants 20% Provost 20% school/college 20% PI
Date of source document:	1994
Complete description of program:	Yes

Indiana Univ South Bend

Research rank:	n.a.
Description of ICR distribution:	40% VP Research 10% school/college 20% department 30% PI
Date of source document:	2001
Complete description of program:	Yes

Appendix 2

Documents from Montana State University

- "Principles for Investing Recovered Facilities and Administrative (F&A) Costs"
- "F&A (formerly known as IDC) Guidelines and Uses" from MSU *Principal Investigators' Research Guidelines*

Principles for Investing Recovered Facilities and Administrative (F&A) Costs {also known as InDirect Costs (IDC's) or Indirect Cost Recovery (ICR)}

In 1989 the Montana Legislature defined how indirect costs from research grants to the MUS are to be used: "Research grant indirect costs retained at the various units of the university system must be expended for the enhancement of existing research programs, assistance to and encouragement of new research programs, and the general support of research."

A general principle that should be applied to all investments of recovered F&A is that investments should have a high probability of return either as increased grant and contract funded research or enhanced creative activities on the campus.

Past investments in faculty start-up packages were based on a high likelihood of return on the investment. In fact past investments in faculty recruitment are the main reason for the substantial growth in Grants and Contracts (G&C) activity. This growth has resulted in increased recovery of F&A funds, which can then be used to make additional investments.

Given that MSU has limited sources for funding faculty start-up packages the number one priority is to ensure that there is adequate uncommitted F&A to fund all necessary faculty start-up packages. Recovered F&A is the lifeblood for the future of MSU and adequate F&A funds must always be available for faculty recruitment. Start-up packages in the science and engineering disciplines can be substantial. For example, a Research Corporation recent study of start-up costs for faculty who are beginning their academic careers found that in 2001 the average start-up costs for new faculty in Chemistry Departments at private institutions was $441,798 and at public institutions the average start-up costs were $345, 650. The study also found that average start-up costs in Physics Departments were $378,029 for private institutions and $303,269 for public institutions. Start-up funds for new faculty support the following types of investments: purchase of essential equipment, funds for postdoctoral associates and graduate students, and funds for computer and user facility fees. A start-up package is intended to provide enough funding to enable the new faculty member to successfully compete for competitive funding. Failure to provide competitive start-up packages will result in MSU being unable to compete for quality faculty.

Matching of EPSCoR, equipment grants and training grants are also important investments, and ones that have documented return on the investment. EPSCoR infrastructure awards have also been a major contributor to the growth of the MSU research enterprise along with the investments in faculty start-up packages. Major research equipment grants from NSF, NIH and private foundations generally require matching funds at some level, e.g. 30% for NSF Major Research Instrumentation, and one-to-one for Murdock Foundation. The campus discovery and learning environment has been greatly enhanced by the purchase of major equipment from various funding sources. Again recovered F&A has been and will continue to be the funding source for the match.

Recovered F&A has also been invested in renovations of space and acquisition of new space. The major limiting factor in continued growth in the discovery activities of MSU is space. We are desperately in need of additional new space and/or renovated space. Each year the investment in renovation projects has increased; however, similar to start-up packages F&A has been the only source of funds and without renovation or acquisition of space there would be significant lost opportunity for funded research.

In addition to these examples MSU has certain “fixed costs” that must be funded by recovered F&A. These include:

- Costs of Grants and Contracts administration.
- MSTA Loan Repayment
- O&M on Ag Bioscience (need legislative rescission)
- Library support
- Institutional Review Boards
- Administrative fee surcharge, audit fees and warrant writing
- Campus-wide facilities including:
    - Animal Resource Center
    - NMR facility
    - ICAL
    - Radiation Safety

While not fixed costs there are some activities funded with recovered F&A that meet critical campus needs in the arts and humanities and in areas where sources of grant funds are extremely limited.

- College Block grants
- Scholarship and Creativity Awards
- Buy-out for Enhancing Scholarship and Teaching (BEST)

Recovered F&A that is distributed back to the units should also be invested in building that unit’s research program. The Dean, Department Head or PI decides the use of these funds. From the perspective of the Office of the Vice President for Research, appropriate uses include:

- Graduate and undergraduate student research support. Several departments use the recovered F&A to augment graduate student stipends.
- Departmental administrative costs associated with grants and contracts management.
- Equipment and service contracts on equipment.
- IT hardware and software.
- Buy-out of faculty time so that salary savings can be applied to adjunct faculty or GTA’s.
- Contribution to start-up packages.
- Equipment and service contracts on equipment.
- Travel to discipline-based meetings.
- Service contracts on equipment.

Uses not consistent with legislative intent include the following:

- Adjunct salaries
- Direct instructional operations costs
- Staff support for staff solely engaged in the instructional program
- Equipment solely for classroom use.

430.00 F&A (formerly known as IDC) Guidelines and Uses

Pursuant to 1989 Montana legislative intent, the following applies to MSU F&A policy:

". . . grant [F&A's] retained at the various units of the University System . . . must be expended for the enhancement of existing research programs, assistance to and encouragement of new research programs, and the general support of research."

A.

Philosophy

The philosophy guiding the use of F&As at MSU include:

1. the intent of the Legislature as stated above.
2. the distribution of F&As using a merit driven system aimed at maintaining or making competitive the research and creative programs of the faculty;
3. the distribution of F&As whenever possible on a competitive basis through set procedures and known guidelines;
4. having the Faculty Advisory Committee (FAC) advise the Vice President for Research, Creativity and Technology Transfer (VPR) on all matters related to these guidelines.

B.

General Guidelines

An appropriate share of F&As will be returned to the local academic departments which generate them and the remainder administered centrally. Academic departments are defined to be those that administer academic degree programs. This return policy applies only when the university is collecting the FULL F&A rate on the contract. When the F&A collection is less than the full rate, the return will be negotiated with the Vice President for Research.

F&As generated by local academic departments will be returned in the following proportions:

Principal Investigator	10%
Department	30%
Dean	10%
Vice President for Research	50%

in order to enhance their research programs, to help cover the facilities and administration costs of doing research, and to ensure that each remains competitive. These returned F&As are to be used for such things as research support personnel, maintenance and repair of research equipment, computers, renovations, operations, graduate student

stipends and fees, travel, matching, research or adjunct faculty, speakers, carry-over funding, support facilities, and support of new faculty members, including start-up costs.

F&As generated by a Board of Regents approved Center/Institute, federal earmark or other non-competitive awards will be negotiated with the Vice President for Research on a case by case basis. If possible F&A returns will be used to assist in sustaining the Center. The standard policy is to not return F&As generated on these types of grants to either departments or to PIs. Historically, Centers have received:

a 40% F&A distribution

in order to establish a level of sustainability.

F&As held centrally will fund major projects and will assist through campus-wide programs, those faculty who either are not grant competitive or who require support to succeed in their creative activities. Often in combination with local departmental funds, these F&As will support special projects, MONTS, block grants, department improvement grants, recruitment and start-up funds, research initiative awards, technology-transfer activities, library, computing center, campus-wide facilities, research facilities and centers, federally mandated regulatory activities, and major equipment purchases.

Non-academic departments may request from the Vice President for Research, Creativity and Technology Transfer some F&A return to supplement or match a grant or contract or to support the administration of a program. This is done in writing at the time of submission of the proposal.

C.

Detailed Guidelines

1. F&As will be distributed monthly as earned from the generation grant as expenditures occur. Separate fund/index numbers can be established for each PI to receive the monthly distributions. Balances carry forward month to month and year to year.
2. Block grants may be available from the VPR for those academic departments that do not generate reasonable F&A returns. These funds must maintain a positive cash balance.
3. Full MSU F&A rates will be charged unless the funding source has a lesser rate that it charges uniformly to all grantees. If the PI requests an F&A rate which is less than that allowed by the policies of the funding source, then approval of the department head, dean and Vice President for Research, Creativity and Technology Transfer is required and no F&As will be returned to the PI, Dean or Department Head.
4. Cost sharing (See 440.00) will be primarily the responsibility of the local departments and will be discussed and/or negotiated on a case-by-case basis among the PI, Department Head and Dean, i.e., the proportion of the fifty percent

return to the local departments that will be committed. The VPR will only be involved on those occasions where substantial cost sharing is required.

5. For PIs that are 100% funded from soft money, the F&A are currently being returned in the following proportions: 30% Departments; 30% PI; 10% Dean; and 30% VPR. These funds, together with the direct costs of the project, must fully fund the PI's research program.
6. When there are multiple PIs on a proposal, and the proposal is awarded, they must agree on a split of the 10% return to the PI, and inform Grants and Contracts in writing of this agreement.
7. For grants and contracts with Principal Investigators with split appointments, the F&A return will be split among the local departments in the same proportion as the FTE split, consistent with other elements of this policy.
8. For awards that involve more than one department, the principals will decide how to distribute any F&A return. The PIs will inform Grants and Contracts in writing of the agreed upon split.
9. Requests from faculty for funding, particularly smaller amounts for travel, student fees, operations, speakers, etc., are best handled at the local department level where priorities can guide decision. Therefore, the VPR will refer such requests to the appropriate department head and dean. Local departments must budget for contingencies and the future and not commit all of their funds at the beginning of the year or at one time.

Appendix 3

Sample statements of allocation principles

- CSU San Marcos. While CSUSM is not a major research institution, its policy statement on indirect cost recoveries does a particularly good job of clearly articulating the principles driving the policy.
- University of Houston. Rationale for policy on allocation of indirect cost recoveries.
- University of Missouri-Columbia. Proposed principles for allocating indirect cost recoveries, part of a larger document from a group looking at ways to link strategic planning and resource allocation.
- University of New Hampshire. Description of allocation methodology with some statements on rationale interspersed. This is the first half of this document; the second half details procedures for distributing the funds in the their Responsibility Center budgeting system.
- Oregon State University. Description of how F&A costs are treated in the budget. In this institution, F&A costs are considered general revenue but part is still returned to the units that generate it.
- Western Kentucky University. Another clear statement of principles for the allocation of indirect cost recoveries.

CSU San Marcos

Indirect Cost Recovery Policy

Preamble

This policy is the initial indirect cost revenue allocation policy for CSUSM, and is written with the intention of being clear and unambiguous, so that all who are involved in the process or who are interested in understanding the process can easily do so.

California State University, San Marcos actively encourages its faculty and staff to pursue research and creative activities through externally funded grants and contracts. Our faculty and staff are clearly our greatest resource and represent a wide range of talents. There is an urgent need to develop a clear policy to enhance the University environment for our faculty, administrators and staff to seek external funds for research, scholarly and programmatic activities.

The experience of many Universities is that this encouragement most effectively provides a policy which returns a significant portion of surplus indirect costs to those who generate the funds through successfully competing for external support. This is most directly accomplished by returning a major portion of the indirect costs remaining, after expenditures for administration of the grant, to the Principal Investigator and the organization that supports that effort.

The CSUSM Foundation is a non-profit organization which depends on reimbursable costs to manage its operation. It presently contracts with the University for several services. As required by Title V of the California Administrative Code, the Foundation has created a separate entity, without reliance on service assistance by the University or the state, to manage grants and contracts. All costs for grant and contract administration and support must be covered by the overhead generated. Presently, the estimated costs for administering grants is 25.8% (estimated Foundation costs as a percentage of actual grants and contracts activity in 92/93). Based on the experience of pre- and post-award costs of administration and support of grant and contract activities, the CSUSM Foundation is estimating a long-term normalized cost of approximately 13% of the total direct costs of any given grant. The total costs of administering grants is not being requested at this time so that funds will be available to encourage faculty and staff to actively participate in grant preparation.

Objectives

The distribution of indirect costs recovered from grants and contracts should advance the following objectives to the maximum extent possible:

1. Provide for support of research, innovative or campus-based need programs, scholarly and creative activities, and for generation of additional externally funded grants and contracts.
2. Provide for the cost of grant and contract management by the Foundation as required by law.

3. Provide incentives for the faculty, staff and administration to participate in grant and contract activities.
4. Provide grant-funded release time for faculty, staff and administrators.
5. Maximize total indirect costs recovered by increasing incentives for improving the effective rate of indirect cost recovery.
6. Stimulate successful competition for external funds and maximize faculty, staff and administration participation in this activity.
7. Provide an adequate reserve consistent with typical foundation practice for audit disallowance reserves and contingency costs for grant and research expenses.

Policy

Term and Extension This policy is effective for a three year period for all new awards that begin on or after July 1, 1994. Existing indirect cost recovery funds for grants awarded prior to July 1, 1994 will remain as a Foundation contingency reserve for grant disallowances.

Requirement to Request Maximum Indirect Funding While it is recognized that indirect cost recovery rates allowed by funding agencies are not under the University's control, it is the policy of CSUSM and CSUSM Foundation that the grant applicant will request the maximum indirect cost funding allowable by each granting agency.

Principal Investigator Incentive Principal Investigators meeting the following criteria will be awarded a share of the indirect funds before surplus is identified for campus distribution. Those Principal Investigators who request the maximum indirect cost allowable by the grant/contract agency, and who work with the Foundation to develop a grant budget, will be awarded 5% of the grant/contract indirect funds, up to a maximum of $1,000. This award is in addition to the Principal Investigator share of surplus indirect funds distributed to the campus, as discussed below.

Foundation's Cost to Administer Grants/Contracts During the three year period of this policy, the Foundation will recover the pre- and post-award costs of administering and supporting the grants and contracts by charging 13% of total direct costs. Effective August 1995 and each August thereafter, the Foundation will distribute any excess indirect costs recovered during the prior fiscal year according to the distribution formula stated below, or recover any deficit. This will be accomplished first from the Provost or EVP's indirect cost distribution, and then from the college/department General Fund allocation or other negotiated college/department resource. This policy is derived in recognition of the competing needs for incentives and the legal requirement that grants and contracts administration must be a self-supported activity. We have attempted to achieve a balance of those needs. The equity of the distribution at CSUSM depends primarily on the indirect cost recoveries generated by each of the college/departments.

Exceptions may be made prior to grant submission or in writing by the Director of the Foundation, upon recommendation from the Provost or Executive Vice President. For example, exceptions might be made for equipment grants for which the University has made a significant matching contribution.

Distribution of Excess Indirect Cost Recoveries

The Foundation will distribute the campus share of the indirect cost recovery funds as follows:

- 20% to the Principal Investigator
- 20% to the Provost or EVP
- 20% to the college/department
- 25% to the Foundation to build the audit disallowance reserve
- 15% to the Foundation Grants Development account for the growth and development of new grants.

The Foundation will create two pools of indirect cost recovery funds - restricted and unrestricted. The purpose of these two pools is to distinguish limitations on the use of funds for expenditure purposes. Use of indirect cost recovery funds is discussed in a subsequent section of this policy.

The percentage share for the principal investigator, disallowance reserve and grant development cannot be changed or reallocated for the term of this policy, and will not be used to cover any deficits in the college/department indirect cost recovery requirement (13% of direct costs/college/department). At the point in time that Departments are designated, and begin sharing these funds, this new share will come from the cumulative 40% now allocated to the Provost or EVP and college/department. The other distributions (principal investigator, disallowance, and new grant development) will not be reduced to accommodate the new sharing partner.

If a proposal is submitted by faculty/staff in more than one college/department, the Foundation will expect the two units to work out an agreement for sharing the distribution from the Foundation (or the payment due the Foundation in the case of insufficient indirect cost recovery to provide funding at 13% total direct costs. The Foundation will review, acknowledge and honor any such agreement.

Appropriate Use of Distributions Restricted indirect cost recovery funds allocated to each of the campus entities are designated by the granting agency for use in support of the grants and contracts program. Appropriate uses include such things as payment of matching fund requirements on grants and contracts, funding of indirect cost recovery shortages to the Foundation, funding for project cost overruns, continuing maintenance expense and service contracts for equipment used directly on grants and contracts, travel directly related to current grant programs or that can reasonably be expected to generate new or additional grants and contracts, equipment purchases that directly support an ongoing grant or contract or can be expected to generate new or additional grants and contracts, and other expenditures that clearly do or will provide a benefit to the grant and contract program.

Appropriate uses of unrestricted indirect cost recovery funds include such things as funding for project cost overruns, purchase of supplies and equipment for a bona fide campus based program or that can be expected to support new or additional grants and contracts, maintenance expense and service contracts on equipment, travel related to current grant programs or that can reasonably be expected to generate new or additional

grants and contracts, costs to attend annual conferences for the academic/professional discipline, and other expenditures that clearly do or will provide a benefit to a bona fide campus based program or to the development of new grant and contract programs.

The Foundation will monitor expenses for appropriateness to the grants and contracts effort. Recent public concern with overhead costs at universities underscores the importance of assuring that expenditures are made for the kinds of costs alleged.

Review

During the 1996/97 fiscal year, this policy will be reviewed by the University and the Foundation for effectiveness, modified as necessary, and extended for a period of time as deemed appropriate. The review shall examine but is not limited to determining whether the policy is appropriately structured to:

1. achieve its objectives
2. provide an enhancement of grant activities
3. remain consistent with Foundation fiscal constraints.

Ref No. P-001
Effective Date: 7/1/94
Issue Date: 6/23/92

University of Houston

From "Indirect Cost Return, Fiscal Year 2003 IDC, Returned in Fiscal Year 2004"

Rationale

State of Texas policy provides an incentive to increase research activities through the dedication of a portion of the indirect cost to the unit(s) responsible for generation of the indirect cost funds. Distribution at the college, and department levels meet this objective. It is appropriate to allocate funding to laboratories, centers, or institutes if those units are responsible for generating indirect cost funds and desire to handle their own administrative activities (secretarial, office supplies, etc.). In such instances, faculty who are members of the institute must contribute their funding resulting from institute proposals to the institute pool.

University of Missouri-Columbia

From "SPRAC Linking and Resource Allocation Sub-Committee, Interim Report – November 11, 2003"

- Recovery of Indirect Costs- a growing proportion of total funding (5%+)
  - Implement a sliding scale Research Incentive Fund (RIF) split between the campus and the investigator to allow for local (dept/division) decision-making on F&A waivers and increase the overall income for the institution.
  - Consider reserving that income from increasing the F&A rate for a research incentive pool to be allocated to boost research capacity based upon strategic plan.
  - Implement a strategy that views F&A revenue as "investment" funds in which we expect a return on that investment. If these funds are allocated strategically, we will not only meet the goals of the strategic plan, but will also provide a high return on investment that generates new resources that allow the campus to meet a larger range of strategic objectives.

UNIVERSITY OF NEW HAMPSHIRE

Decentralized Budgeting - RCM Operating Manual

INDIRECT COST RECOVERY

revised 11/2003

Overview

Indirect cost recovery revenue (IDC) comes to the University through agreements with external sponsors in order to help defray overhead costs resulting from research activities. Under the current budget system, indirect cost dollars are collected and managed centrally by the Vice President for Finance and Administration (VPFA), and are used to provide general fund support for both research units and non-research units. With the exception of research centers and VPR&PS, the amount of Educational and General fund budget provided does not directly vary with the amount of indirect cost recovery a unit generates. Under RCM, IDC is allocated directly to the unit that generates the overhead costs in an effort to link IDC to research activity, provide better incentives for conducting research, and make units responsible for their portion of overhead costs.

Allocation Methodology

Indirect Cost Recovery revenue is allocated to RC units as follows:

- 66.5% to the RC unit that receives the award
- 13% to the PI(s) named in the grant document
- 18.5% to the Vice President for Research and Public Service
- 2% to the Library
- 66.5% to Academic and Research Units:

RC units will receive 66.5% of the indirect cost recovery that the unit generates.

Or

For shared (e.g. inter-unit) grants, the 66.5% will be divided among units through negotiation at the time of the writing of the proposal. The following template has been provided as a default allocation to assist units in dividing the 66.5%:

Research Faculty

- 5% to the Research Faculty member's home RC unit
- 61.5% to the RC unit receiving the award

Formula Funded Faculty (duties split 50% between research and instruction)

- 15% to the Faculty member's home RC unit
- 51.5% to the RC unit receiving the award

Instructional Faculty

- 25% to the Faculty member's home unit
- 41.5% to the unit receiving the award

Allocation Details

66.5% to Units: Units conducting research generate overhead costs associated with the research activity. The same units are directly responsible for securing reimbursement for these costs. Therefore, it is logical that units conducting research receive the majority of the indirect cost recovery (66.5%).

Shared Grants Default Distribution Method: UNH is committed to promoting interdisciplinary research. This distribution of indirect cost revenue recognizes and rewards interdisciplinary collaboration, at the same time attempting to cover the administrative costs where they occur. Percentages attributed to the home units are in recognition of the standard costs of administration associated with faculty members; the larger percentage is directed toward the unit receiving the award, where the main costs will be incurred.

Percentages (shown above) are guidelines and can be negotiated at the proposal stage by units for unique situations. In situations where the IDC return will not comply with the standard default mechanism (shown above), allocation of the 66.5% must be included on the Office of Sponsored Research "Request for Internal Approval of Grant or Contract Application to External Sponsor (the "yellow sheet"). Copies of the yellow sheet need to be forwarded to the Office of the Vice President for Research & Public Service (OVPR&PS) so adjustments can be made to the allocation of IDC. During the development of a new financial system, an automated distribution system will be developed.

13% to PI's: In order to provide incentive for research and scholarly progress and seed funds for new projects, 13% of the indirect cost recovery should be directed to principal investigators.

The 13% return (approximate, as the percentage has varied) is an existing form of RCM. Started in 1984, this sharing of revenue by the central administration has clearly been a success. An argument can be made that this policy has encouraged the dramatic growth in externally supported research. The return

represents an incentive that already succeeds at the individual level. It is a pure and direct form of incentive. PI's see the reward for effort -- they receive funds when they produce, and they do not receive funds when they fail to produce. Faculty have stated that this small but significant and tangible reward is an added incentive to their research and scholarship mission.

At UNH, the return to PI's is sometimes the only significant "seed" money available to explore new research concepts and to develop data for proposals in new areas (especially as resources at the dean/VP level have dwindled). As one PI stated, it is "how the next grant is gotten." Faculty also feel that "they are not stealing from their department's or college's meager resources" when they can use these funds instead.

18.5% to the Vice President for Research and Public Service: The Office of the Vice President for Research and Public Service will receive 18.5% of the indirect cost return. This distribution is intended to accomplish two things:

- To defray the majority of the costs of administering sponsored programs (primarily the administrative functions of the VPR&PS, and the Office of Sponsored Research);
- To provide the VPR&PS a discretionary fund for new initiatives, equipment cost sharing (match), participation in start-up for new faculty, repair of broken equipment, and replacement due to theft, etc.

2% to the Library: The Library will receive 2% of total indirect cost recovery generated to recognize its contribution of valuable resources to researchers. The Federally approved indirect cost rate also includes approximately 2% for library services. It is appropriate to provide the library with a portion of the indirect cost recovery in an effort to recognize the library's valuable role in research and scholarship and its associated costs.

Oregon State University
From “Indirect Costs: A Primer”

How are F&A Costs treated in the budget?

The F&A costs are paid to the University as reimbursement for the costs of providing research infrastructure. As such, they are simply put into the general operating fund of the university and are allocated like any other part of the budget. With only a couple of exceptions, these funds are not "earmarked" for special research purposes. They are to defray legitimate costs of supporting the research enterprise.

The two exceptions are for Building Use Credits (BUC) and Research Equipment Reserve Funds (RERF). The Federal guidelines governing Facilities and Equipment Costs (OMB Circular A21 for those of you tempted by daunting documents) requires that 4% of the F&A Costs be spent on improvements to research space (BUC) and that 8% be spent on improvements in research equipment (RERF).

The balance of the F&A funds have been put into the general fund budget and distributed. Prior to FY02, the F&A funds were distributed to units (the Library, Facilities, Research Accounting, etc.) in roughly the proportion that was negotiated. The balance of the base budget for those units was then made up from the tuition and state dollars.

The Budget Allocation Model that was used first in FY02 does not differentiate the F&A funds from other sources of general fund income. The intent was to identify a reasonable share of the total operating budget for essential support functions like the library. With the exception of the BUC, RERF, and the overhead returned to units (see the next section) the F&A funds are not tracked separately.

If we returned to allocating the F&A funds in proportion to the negotiated rate, it would not increase the funding to any particular unit . . . the library for example. Such a change would mean that the budget allocation model was used to allocate only state and tuition dollars rather than the total general fund. The library’s share of that state and tuition pool would be less in a modified model, as the library would be getting funds from the F&A pool. The difference is not in the overall allocation but in how the funds are tracked and distributed.

What about Returned Overhead*?*

There is probably no part of the budget that is less understood than what is called Returned Overhead (ROH). This is an amount of money that is distributed to units based upon their overall recovery of F&A costs. The percentage returned varies from 26% to 42%.

There is nothing in the negotiations with HHS or in OMB 21A that mandate that some part of the F&A Costs be returned to units for research. Quite the opposite. Those costs are reimbursement for indirect support costs, not for direct costs related to grants. What we term ROH is not in fact some mandated share of the F&A dollars. The ROH is an internal budget mechanism to provide incentives to pursue grants and contracts that recover F&A costs for the University.

Put another way, OSU has chosen to provide a budget allocation to units over and above the base budget allocation. That additional budget allocation is calculated using the unit's F&A cost recovery as a yardstick. This budget allocation is an incentive to pursue work that generates F&A. It might be better termed a Research Incentive Allocation. Most research institutions do something similar, all with the same purpose---to stimulate the pursuit of grants and contracts that produce F&A costs.

Almost any proposal to "use" indirect costs to support some research enterprise has the same issue. It is really just proposing to use part of the General Fund (since F&A is part of the General Fund) to support a research cost. As pointed out in an earlier section, until we make those research expenditures, they can't be used in negotiating our rate and we can't get reimbursed for them. The pool of F&A funds is not there to support new research initiatives. The funds are to pay real costs and whenever we try to move funds to some new purpose, we need to be aware that those funds have to be made up some place else in the budget.

Western Kentucky University
Office of Sponsored Programs

Policy for Facilities and Administrative (Indirect) Cost Recovery

A-21, "Cost Principles for Educational Institutions," was revised by OMB as of May 8, 1996. One of the revisions changed the term indirect costs to Facilities and Administrative Costs (F & A Costs)

The policy of Western Kentucky University is to share F & A recovery funds coming to the University through grants and contracts in an equitable manner. The principles for allocation and use of these funds are:

- The funds should provide incentives to those units that are successful in attracting funds.
- The funds should provide base funding for the University's efforts to increase extramural funding.
- Priority should be given to meeting the needs for equipment, facilities, and administrative costs, especially where improvements will increase opportunities for additional extramural funding.
- In addition to rewarding units and individuals for research, funds should provide seed funding for increasing grant writing and for helping junior faculty and departments become competitive for extramural funding.

When F & A cost recovery funds result from projects involving faculty in more than one college, the deans of the colleges will be responsible for jointly recommending F & A cost distribution to the Director of the Office of Sponsored Programs. F & A cost recovery funds will be allocated FOUR times a year. Allocations will be based on receipts from the previous three months (i.e., one quarter lag). The allocation will occur as follows:

Quarter F & A Costs Collected	Month Allocated
First Quarter -- July 1-September 30	October
Second Quarter -- October 1-December 31	January
Third Quarter -- January 2-March 31	April
Fourth Quarter -- April 1-June 30	August
Carry over	August

The funds will be distributed in the following manner:

40% University's General fund for support of facilities

40% College or appropriate Vice President

20% Office of Sponsored Programs

The Chief Financial Officer will allocate the previous quarter's F & A cost recovery revenue under the above-referenced formula in the F & A cost center accounts. F & A cost recovery funds allocated to cost center accounts in any given fiscal period will be carried over from year-to-year. Carry forward funds will be available for use in the new fiscal year after the previous fiscal year's books are closed (approximately the first week of August of each year).

Additionally, a year-end report is to be submitted by each cost center fiscal officer to the Office of Sponsored Programs and the Vice President for Academic Affairs summarizing how these funds were used in the context of this policy. The Office of Sponsored Programs will periodically review accounts.