Frequently Asked Questions (FAQs): Indirect Costs of Sponsored Research*

1. Why do government and other sponsors provide support for indirect costs of research?

   The university incurs a variety of costs to support the research enterprise, both during the project development and proposal submission stages and while conducting projects funded by federal, state or private sponsors. These costs are referred to as indirect costs or Facilities and Administrative Costs (F&A). Government agencies and private sector sponsors typically fund a portion of these costs.

2. How does the university spend the indirect cost payments from the federal government and other sponsors?

   It is important to appreciate that indirect cost recovery is reimbursement for costs already paid for by the university in support of research. The university typically pays the indirect costs of research in advance and is later reimbursed through indirect cost recovery included as a budgeted expense on sponsored projects. Costs reimbursed by federal indirect cost recovery include, among others, the portion of construction, facilities maintenance and libraries that is dedicated to federally sponsored research, recurring expenses such as utilities, telecommunications, hazardous waste disposal, security and fire protection, and liability insurance, the personnel and operations needed to comply with the government regulation of research, and the administration of research at the university, school and department levels.

   Indirect cost recovery is a reimbursement for expenses already incurred, not a revenue source for the university. This is perhaps the most commonly misunderstood aspect of indirect cost recovery.

3. How is the level of federal indirect cost recovery determined?

   The university and federal government negotiate the indirect cost rate based on research-related costs that have already been incurred. To determine the level of reimbursement, university and federal government representatives meet periodically together to assess the allowable costs and negotiate an appropriate federal share. An important step in the process is the accounting and documentation of costs that the university has incurred for research support, with space utilization as a key element. The final indirect cost rate is expressed as a percentage of the amount of direct research costs awarded by the federal government. In practice, the actual reimbursement is slightly less than that percentage since certain direct cost elements are excluded from the calculation. A set of rates is negotiated for various circumstances including on-campus sponsored research, off-campus sponsored research and non-research related sponsored programs. (The latter might include federally funded activities such as instruction, educational service, public service, or professional conferences.) Once agreed upon, the rates apply to grants and contracts with all federal agencies, other government sponsors and private entities.

4. Does indirect cost recovery support the entire cost of doing research, or does the University contribute institutional funds?

   The University uses internal funds to pay research costs that are not recovered through the application of indirect cost agreements. Overall across the nation, universities are the second leading sponsor of research conducted on their campuses and fund about 20% of
university research expenditures. Included in the university share are the costs of compliance and administration above the cap set for federal government reimbursement.

5. Is the federal government indirect cost recovery actually subsidizing work that is sponsored by foundations and industry?

No, this is prohibited by federal regulation. Regulation requires universities to ensure that the federal government does not subsidize other non-federal activity through indirect cost reimbursements associated with the performance of federal research. Universities must demonstrate how this is ensured and are held accountable. The federal regulation on this point is designed to ensure that the federal government pays only its share and does not subsidize non-federal activity.

6. Is federal indirect cost recovery used to subsidize other campus activities, such as athletics or construction?

No, this is prohibited by federal regulation. Indirect cost reimbursements are based only on space and facilities dedicated to research, not on education or other university facilities. The accountability for this determination is high, and research costs are accounted for with a great deal of care. The government requires yearly independent audits of university accounts in accordance with prescribed guidelines.

Historically, most research facilities have been planned and funded by universities. The university assumes all of the financial risk in planning the building, raising the capital and constructing the facility. Only when that process is completed, and only if the faculty who use the new facility can compete successfully for federal research dollars, does the university recover some portion of the costs already incurred through its negotiated indirect cost rate. Again, indirect cost payments are actually reimbursements for allowable research expenses already paid by the university.

7. Why is there so much variation in indirect cost rates between institutions?

The outcome of the indirect cost rate calculation varies among universities because the actual costs vary. For example, energy costs for heating and cooling vary with geographic location. The age and condition of facilities and buildings is a variable that affects the amount of renovation, maintenance and construction needed to house and support ongoing research projects. Factors such as complexity of the facility and requirement for specialized infrastructure influence the rate calculation, as does the square-footage dedicated to research.

8. How often does our indirect cost rate change?

The university’s indirect cost rate is applied to all federal grants for a three- or four-year period. The rate is reexamined at the end of the period in light of the actual costs and can be adjusted upward or downward as warranted.

9. If indirect costs are not collected from sponsored awards, how does the university cover the associated costs?

Universities have a limited number of funding sources. The primary funding sources for a private research university are tuition, research grants and contracts, philanthropy and
endowment income. When the university cannot recover the full allowable cost of research, the need for reimbursement does not disappear; rather, the university must rely on other funding sources to make up the difference. In addition to the primary funding sources, many universities utilize auxiliary income sources to help support the research enterprise, including partial allocations from the revenues of training programs, revenue from the commercialization of intellectual property, capacity-building and consultancy projects, and/or clinical operations in an academic medical center.

*Adapted from “Frequently Asked Questions about the Indirect Costs of Federally Sponsored Research”, prepared by the Association of American Universities and the Association of Public and Land-grant Universities, October 2013.*