Waiving the Indirect Cost -- Not a Good Practice

Guest Editorial by Linda Mason
Oklahoma State Regents for Higher Education

Recently, I entered into a discussion about how a 'generous' institution and principle investigator (PI) waived the indirect cost request as part of a grant proposal in order to make it more competitive. My response is that the opposite happens—the proposal is not perceived as more competitive, but is perceived as a less than responsible use of funds.

I have reviewed for federal agencies and have several good friends who are retired program directors. My feedback indicates that you should never waive or reduce the indirect cost figure. While it may seem to be a gift, it is really undermining the institutional daily programs. The indirect cost figure is based on real costs at the university, and should not be invalidated by waiving. The university *does* need it, and has to pay the costs that the figure represents. The giving agency plans for it and expects it to be used appropriately.

How the Negotiated Indirect Cost Rate is Established

First of all, consider how an indirect cost rate is negotiated and what it represents. Each institution negotiates a rate with a federal funding agency that is based on actual costs of carrying out the grant project activity but that are not covered by the grant.

These costs include the following expenses: common services such as utilities, copying, telephones, electronic networking, support staff, payroll systems, security, insurance, and other services; supporting an institution's facilities and real estate such as research centers, labs, equipment maintenance, and field sites; and supporting the institution's search for funding for projects, such as writing time for the PI, services of the Sponsored Programs Office, travel to funding agencies, and other non-supported activities.

Indirect cost recovery supports or pays for these real costs that are prohibited as direct costs in an award. The university must conduct its activities, including pursuing sponsored projects, on a no profit--no loss basis. Accordingly, the university is required to cover *all* of the expenses associated with projects conducted for extramural sponsors.

Higher education institutions pay different amounts for these items, and that is why the negotiated indirect cost rates may range widely. The Council on Governmental Relations' 2007 report indicates that they range from 40% to 70%, depending on the school's location in the country and the amount of research they conduct.

Actual Use of the Indirect Cost Dollars

Colleges and universities may use the indirect cost figure associated with a grant award in ways that are very different from the basis of the negotiated rate. For example, institutions may distribute the dollar amount back to the college and department of the PI on the grant. So, why not cut out that 'extra' and appear to be frugal to the funding agency? The real answer is that the indirect cost is important for an institution to build the ability to invest in grant seeking and to sustain pilot projects or grant-initiated projects after the award money is used. The institution must provide the common services and expenses whether the grant proposals are successful or not, so they use allocated money to support these common costs.

This means that when the indirect cost funds come to campus, they can be distributed in ways that seem to be creative. Jeanne Ware, at New Florida University, provides a facilities and administrative distribution chart based on a survey of a small sample of primarily undergraduate institutions. It indicates that the funds are shared with a whole variety of areas that do not necessarily apply the funds directly to the shared costs, like utilities. The funds are distributed to the Provost's office, the college, the department, the PI, support for young investigators, support for the Sponsored Programs office, a faculty grant writing support fund, the Internal Review Board, a grant matching fund, and *even* the general fund!

It is possible to use amounts that might be equivalent to the indirect cost rate, not exactly funneling the money over to the investigators, but essentially using cash that might be equivalent or less to the indirect cost figure. But the institution pays for the shared common costs just the same, and even though the PI may not see the tracking of the indirect cost rate, it does eventually support the grant programs at the university.

Why Not Waive the Indirect Cost Request?

First of all, the money is needed and is based on a valid set of costs. Second, to waive it undermines the institution's ability to support the program later or to support other creative projects. And lastly, the funding agency has planned for the indirect costs. The agency has a target amount of money to give for the grants, reviews the reality of the grant project budget, and plans to give the money in good faith to support the institution receiving the award. The next negotiation could reveal the practice of waiving or lowering the indirect cost figure and result in a lower indirect cost rate because of the apparent lack of actual need.

Never Say Never

All things considered, there *may* still be appropriate policies that allow occasional waiving of the indirect cost rate. Such as for a grant from an agency that does not allow indirect costs but is assisting with a high priority initiative. Or, although it is highly unlikely, perhaps all of the support costs for a project are included in the direct funding request.

At the end of the day, keep in mind that pursuing funds from an agency and receiving no indirect costs will only be viable to a campus to the extent that funding the proposed project at a loss is more important to the campus than recovering the full indirect costs.

Voluntarily waiving the indirect cost seems to most often set up a situation where the institution cannot sustain future research and creative projects. For that reason, indirect costs should be negotiated in good faith based on real costs, and when such funds are received they are to be used judiciously.

For more information please see these sources:

Council On Governmental Relations, 2006-2007 F&A Rate Survey, National and Regional Average Report, January 10, 2007.

Ware, Jeanne, Director, Office of Research Programs and Services, New College of Florida. "Our F&A Conundrum: What Happens at a PUI? PUI Neighborhood Article for September/October 2006 Issue of NCURA Newsletter.

OMB Circular A-24, Parts E and F, 2007.