UNIVERSITY OF CALIFORNIA OFFICE OF THE PRESIDENT
INDIRECT COST WAIVER POLICIES AND PRACTICES WORKGROUP
RECOMMENDATIONS REPORT
JULY 2, 2012

LETTER TO THE VICE PRESIDENT

We are pleased to transmit this report on behalf of the members of the Workgroup on Indirect Cost Waiver Policies and Practices. It reflects a good deal of discussion and debate over the past several months, not only among the Workgroup, but also among staff in the Office of the President, members of our Advisory Group and many individuals from the campus research community who provided advice and input.

This report presents six recommendations that describe changes to indirect cost waiver policies and practices which may help improve on the recovery of indirect costs at the University. No single change is likely to lead to an immediate measurable increase in recovered costs. Over time, however, we believe these changes will lead to a better environment that will enable campuses to make the best decisions regarding when to waive indirect costs.

As for implementation, the Workgroup encourages immediate action on Recommendations 1, 2, and 4 in order to establish clear roles, authorities and policies, as soon as possible. The appropriate consultation and care should be taken with the implementation of each recommendation. However, particular attention should be paid to Recommendation 6, which may require additional legal counsel and guidance from costing policy experts.

The Workgroup also presents here a series of *Ideas for Future Consideration*. Each of these issues was identified as a priority in our discussions. However, due to complexity of the issues, we determined that additional study or expertise was needed in order to determine an appropriate course of action. The Workgroup would particularly like to see timely action on items 1, 2 and 3, given their importance and potential impact.

Thank you for the opportunity to provide input on a topic of such importance to the health of the University of California. We hope that our collective efforts will achieve lasting and effective changes to improve waiver policies and practices at UC.

Sincerely,

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UC Berkeley
Co-Chair, IDC Waiver Workgroup

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BACKGROUND ON INDIRECT COSTS RECOVERY

When the University conducts research – on its own or for external sponsors – it pays the **direct costs** of those projects from internal funds or bills them to project sponsors. Direct costs cover researcher salaries, travel, supplies or equipment, and other expenses readily identifiable with the project. UC spends approximately $4 billion each year on the direct costs of research. A large part of these activities (over $786 million) is supported by UC's own institutional funds. However, the vast majority (over $3.2 billion) is paid for by research sponsors such as the federal government, the state, non-profit foundations and private companies. [1]

In addition to paying for direct costs, sponsors are also billed for the **indirect costs** of supporting their research projects - costs incurred by the University for facilities or services that are shared among many research projects or functions across the University. Indirect costs include utilities, building and lab management, libraries, grant administration support, maintenance, and other services that support and enable research at our campuses. Since these shared costs are extremely difficult to attribute directly to a specific project, an **indirect cost rate** is used to calculate how much the University can recover for the use of its facilities and administration on any given research project.

Each campus negotiates an indirect cost rate separately with the federal government. Campuses submit a proposal that calculates their total research costs (direct and indirect) during a given year, and compares those costs to the total amount of all direct costs in research supported during that same year to arrive at a proposed rate. This proposal is examined by the federal government and negotiated down to a final rate which, once approved, is applicable to all sponsored research (with some exceptions described below). UC rates currently fall between 51 and 55%. Our rates are generally considered low - about 5 to 10 points below those of similarly ranked universities and 5 to 18 points below what campuses calculate as their actual indirect costs.

In 2010-11, the University recovered close to $993 million in support of the indirect costs of externally-funded research projects worth over $3.2 billion dollars.[2] These funds were reimbursed to the campuses that generated them, and were used to pay for the continued support of shared University facilities, functions and services. Some campuses return a portion of recovered indirect costs to departments, to pay for department services that indirectly support research or to help incentivize the recovery of indirect costs. Others distribute funds based on campus needs and priorities. As part of UC core funds, these dollars are spent in many ways to support the core functions of the University.[3] A large part of these funds are used for the ongoing support of research.

It is important to note, however, that funds recovered from sponsors to support the indirect costs of their projects <u>do not fully reimburse</u> the University's expenses. This is largely due to two factors. First, federally-negotiated rates contain

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[1] *Data provided by UC Institutional Research from Research Expenditure Composites FY2011.*
[2] *Ibid.*
[3] *In addition to supporting campus functions, campuses also pay for central operations, such as UCOP administration and services, UCOP-managed academic programs, systemwide initiatives and ongoing commitments, multi-campus research programs and initiatives, and the Division of Agriculture and Natural Resources Cooperative Extension, through an flat assessment on campus funds. Funding for central operations may come from many different fund sources, including (but not limited to) funds generated by indirect cost recovery.*

many “restrictions” which limit indirect cost recovery for legitimate costs.[4] The Office of Research and Graduate Studies (ORGS) estimates the under-recovery resulting from these “restrictions” on our federal rates to be as much as $238 million.[5] These restrictions have been conceded, in the past, on the strength of our partnership with the federal government which sponsors over 55% of research at UC. In recent years, however, as State funding has diminished (and with it, UC’s ability to subsidize the indirect costs of federal research), the University has been more actively engaged in federal reform efforts to redefine a more fair and effective federal partnership.

A second major factor in the under-recovery of indirect costs is the intentional waiver of full cost recovery for specific projects, sponsors or types of research. A significant number of research sponsors do not reimburse the University for indirect costs, or do so at a greatly reduced rate. This can be a problem, particularly in tough budget times, since indirect costs are real costs. When the indirect costs of a project are not recovered from the project’s sponsors, the University must subsidize these costs from other funding sources. The amount of funds required to subsidize waivers is estimated by the Office of Research and Graduate Studies (ORGS) to be as much as $356 million per year.[6]

Many of these waived indirect costs, however, are not necessarily recoverable. Some waivers are vital to campus interests, where the benefit of securing funding for a proposed project outweighs the financial burden of subsidizing these indirect costs. Others are based on written sponsor policies which limit the amounts sponsors are willing to pay for indirect costs. In many cases, the reality is that if campuses do not waive indirect costs, their researchers will not be able to apply for or accept certain types of awards or grants, and will thus need to find other ways to fund their research projects.

However, given the recent rapid decline in state funding, it is no longer reasonable to assume that the University can continue to subsidize the indirect costs of sponsored research at the rates it has done so in the past. Tuition is skyrocketing, debt is increasing, upgrades to buildings are being indefinitely deferred, and jobs are being cut to address shrinking state budgets and competing funding needs. As UC budgets have tightened, the subsidy of indirect costs for sponsored research has become a significant drain on UC’s ability to support a high-quality, competitive research infrastructure, and is rapidly becoming an unsustainable burden for the University.

THE INDIRECT COST WAIVER WORKGROUP

As part of UC’s Working Smarter Initiative, the Vice President for Research and Graduate Studies has established a task force to investigate ways to increase UC’s recovery of indirect costs for sponsored research. This task force is made up of several working groups, convened on specific topics to identify ways to improve policies, guidance or practices in order to increase recovery rates.

[4] *For instance, the federal government has capped reimbursement for administrative costs at 26% since 1991, despite the increasing administrative, compliance and reporting requirements which have been added year after year.*
[5] *ORGS bases this estimate on the direct costs and reimbursed indirect costs for FY2011, as reported in the Corporate Financial System (CPSRP10-A) for the NSF Survey on Research & Development Expenditures.*
[6] *ORGS bases this estimate on the unreimbursed indirect costs estimates reported to the NSF Survey on Research & Development Expenditures in FY2011.*

Topics being tackled by the task force include:

- **Indirect Cost Waiver Policies and Practices.** The efforts of this workgroup is one of the task force's key initiatives in this fiscal year (2011-2012);
- The federal Facilities and Administration (F&A or indirect cost) rate-setting processes;
- Federal agency policies and practices on F&A reimbursements;
- Campus F&A proposals;
- State negotiated indirect cost rates; and
- Policies on Indirect Cost Recovery associated with research gifts.

The **Indirect Cost Waiver Policies and Practices Workgroup** was convened in October 2011 to re-examine UC's waiver policies, guidelines and practices with the following goals in mind:

- Reduce the overall amount of dollars waived through indirect cost waivers;
- Be thoughtful and consistent in our standards for waiving and recovering indirect costs; and
- Increase transparency, accountability and understanding around the waiver of indirect costs.

Indirect Cost Waiver Workgroup Charge:

1. Conduct a re-examination of UC's systemwide waiver policies, guidelines and practices, considering <u>topics and challenges</u> such as:
    - What categories of waivers are appropriate (class, vital interest, individual project, etc.)?
    - Should some or all of the delegation of authority to approve waivers, which currently rest at UCOP, be moved to campuses?
    - Are special considerations needed for certain types of class waivers (e.g. state-funded research, Agricultural Marketing Boards, clinical trials, and foreign government-sponsors)?
    - What metrics and processes are appropriate for evaluating the value and effectiveness of waivers and our waiver policies and practices?
2. Recommend improvements to waiver policies and practices at the system-wide and campus levels that will address the challenges and goals listed above;
3. Recommend ways to increase transparency and accountability surrounding indirect cost waivers; and
4. Provide a report to the Vice President for Research and Graduate Studies summarizing the group's work and recommendations on UC policies or practices that might help improve indirect cost recovery at the University.
    - This report should include specific recommendations for how UCOP can:
        - Revise or update systemwide policies or guidance governing indirect cost waivers;
        - Revise or update systemwide delegations of authority needed for waivers or types of waivers; and
        - Revise or update systemwide processes and metrics for evaluating the value and effectiveness of waivers and our waiver policies and practices.
    - The workgroup should also consider and recommend principles or models for how UC campuses or the UC system might work to increase indirect cost recovery.

Throughout its work, the Workgroup has also been mindful of finding ways to streamline procedures for processing waivers in order to create cost-saving efficiencies for UCOP and campuses.

WORKGROUP PROCESS & TIMELINE

October 2011	The Workgroup was convened by the Vice President of Research and Graduate Studies in October 2011. See Appendix A for membership.
November – December 2011	The Workgroup met several times (in person and by videoconference) to discuss: • data gathered on comparator policies and practices, • current UC policies and practices, and • potential new ideas or directions to be considered by the workgroup.
January – March 2012	Initial ideas and draft recommendations were formulated and discussed by the Workgroup.
March – April 2012	A Discussion Draft was prepared, summarizing potential recommendations. This draft was reviewed and commented upon by the **IDC Waiver Advisory Group,** a broader set of advisors, including research administrators, budget planning officers, and faculty leaders from the UC research community (see Appendix B for membership). Feedback from the Advisory Group was carefully considered by the Workgroup, helping to shape discussions and recommendations.
May 2012	A Draft for Comment was prepared and circulated amongst the UC research community to solicit feedback from the campuses on the broader impacts of the Workgroup's proposed recommendations. The draft was sent to the Executive Vice Chancellors, who were invited to solicit comments from the appropriate parties on their campuses. The Workgroup chairs also reached out directly to interested groups, such as the Vice Chancellors for Research, Contracts & Grants Directors, External Fund Managers, and two academic senate committees (UCORP and UCPB) to solicit feedback. Groups were given three weeks to review the draft and asked to submit comments by Monday, June 4th in order to be considered by the Workgroup in their final recommendations.
June 2012	The Workgroup carefully reviewed and discussed campus feedback, while preparing its final report. The current report (dated July 2, 2012) reflects the Workgroup's final recommendations to the Vice President for Research and Graduate Studies.
July – December 2012	The Vice President will work with UCOP staff to determine follow-up on any Workgroup recommendations.

OVERVIEW OF RECOMMENDATIONS

The Workgroup has spent several months examining the issues and challenges faced by our campuses in recovering funds to support indirect costs. We have surveyed different approaches from several comparator universities and discussed many ongoing campus efforts to improve on current policies or practices. We conclude that much is already being done to address these issues, both at the campuses and at systemwide levels, particularly in light of the fiscal challenges currently facing the University. There is, however, more that we could do, notwithstanding difficulties and disagreements, to better engage, unite and support these efforts across all of our campuses.

This report contains several recommendations for changes on the systemwide level, to better reinforce and support campus efforts – and a handful of recommendations for campuses to consider in shaping how they manage waiver policies and practices on their campuses. Some additional ideas are also included which fall outside of the direct scope and expertise of the current Workgroup, but which we believe might have some bearing upon indirect cost recovery.

It is important to note that while these changes will move the University forward and better support the campuses in their efforts to manage waivers and recover costs, *improvements in actual recovered costs are likely to be incremental and may not be immediately apparent.* In part, this is because a significant portion of waived costs are *not voluntary*, but are due to sponsor policies which restrict the amount of overhead a sponsor is willing to pay. While the below recommendations may help provide better information, guidance and support to the campuses in working with their sponsors, the reality is that in many cases, if campuses do not agree to waive indirect costs, their researchers will need to walk away from significant sources of funding for their research. In these cases, focusing on reducing waivers without addressing these root causes could harm UC research, rather than help it. In fact, some Workgroup recommended actions may result in an apparent *increase* in under-recovery estimates, due to anomalies in data and reporting.[7] Thus, it is important to focus, not on driving down the number of waivers, but on a long-term realignment of incentives and priorities at each campus, supported by clear systemwide policies, guidance and communication, which can foster a better understanding among all parties of indirect cost recovery and what it means to the University.

With this understanding, the Workgroup recommends the following changes be made to **Systemwide roles and authorities,** to better reinforce and support campus decision-making and accountability:

(1) Delegate the authority to approve indirect cost rate exceptions to the Chancellor at each campus to enable local campus decision-making and accountability for indirect cost recovery;
(2) Eliminate UCOP-approved systemwide class waivers and instead provide a list of verified sponsor exception policies, which can be used by campuses to help inform their local waiver decisions; and
(3) Develop appropriate data collection and analysis tools to assist decision-making on Waivers and Indirect Cost Recovery.

The Workgroup also recommends making the following changes to **Systemwide policies and guidance,** to better support the campuses in their communications and engagements with researchers, sponsors and staff on issues related to indirect cost recovery:

(4) Issue a clear, easily-understood systemwide policy statement and guidance on the principle of full cost recovery, which can be easily referenced by researchers, sponsors and campus administrators alike;
(5) Centrally publish a set of systemwide minimum rates for specific types of project or sponsors where expectations for recovery may differ from standard practices, which can be used by campuses to communicate basic recovery needs and expectations to researchers, sponsors and administrators;
(6) Issue a systemwide policy encouraging campuses to charge allowable facilities and administration costs as direct costs to non-federal sponsors, in cases where indirect costs are not allowed.

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[7] *Measuring the impact of waiver policies and practices can be complicated. Some measures which would increase recovery of overall costs, may artificially inflate estimates of indirect cost under-recovery. For example, by encouraging campuses to charge allowable F&A costs as direct costs for non-federal sponsors who are not willing to pay indirect costs, campuses would be increasing the overall amount of costs recovered. However, estimates on how much indirect cost we should be recovering are based on direct costs, and when direct costs are increased on awards where there is no indirect cost recovery, the calculated loss from under-recovery also increases. So while we may be recovering more in overall costs, our estimated losses due to waivers will appear to increase. Hence, care should be taken when considering how to measure progress.*

The Workgroup further recommends the following **cost recovery tools** be considered by all UC campuses. Each campus should carefully consider whether the adoption of any or all of these tools into current local policies or practices might help manage the administrative burden of waiver requests and approvals, or help improve on indirect cost recovery:

(A) Piloting a minimum research infrastructure fee;
(B) Implementing a tiered- or expedited-review process; and
(C) Providing explicit indirect cost relief to specific research fields (e.g. the arts and humanities), where external funds are limited and usually do not fully reimburse indirect costs.

Each of these ideas is discussed fully, on its own merits, in the below recommendations. In general, these recommendations come with the full endorsement of all Workgroup members. Any areas where there were strongly expressed concerns are highlighted in the summaries below, where we have tried to capture both supporting and dissenting opinions.

Finally, we present several ideas identified and discussed by the Workgroup, where limitations in the Workgroup's time, scope or expertise prevented us from putting forth a full recommendation. We believe these ideas are worthy of additional study and encourage UCOP and the campuses to consider how best to take up these challenges and bring them forward for possible action.

RECOMMENDED CHANGES TO SYSTEMWIDE ROLES AND AUTHORITIES:

RECOMMENDATION 1:

DELEGATE THE AUTHORITY TO APPROVE EXCEPTIONS TO INDIRECT COST RATES TO THE APPROPRIATE LEVELS AT EACH CAMPUS.

Each campus has in place a defined process for decision-making and approval of indirect cost waivers. The specifics of these processes may vary from campus to campus. However, in each case, requests to waive indirect costs are carefully reviewed by appropriate and responsible parties and approved only in cases where the vital interests served by conducting the project outweigh the financial cost to the University.

In light of these local campus procedures, further approval of waivers at the systemwide level is often redundant. Systemwide review can be useful in examining how waivers are applied across campuses to spot overall trends, inconsistencies or errors, and ensure sponsors are not "gaming the system" by providing some campuses higher rates than others. However, systemwide approvals do not add value in managing risk or ensuring accountability.

It is therefore recommended that the authority to approve exceptions to indirect cost rates be re-delegated to the appropriate and responsible parties on each campus. These parties should already have appropriate processes in place to support them in the review and approval of waiver requests and possess sufficient knowledge and accountability to properly weigh the benefits of the proposed project against the financial costs to the University.

Recommended Actions:

1. Delegate the authority to approve exceptions to indirect cost rates from the Office of the President to the Chancellor at each campus, granting campuses the authority to make decisions regarding indirect cost recovery commensurate with the sound fiscal management of campus finances.

2. Allow Chancellors to re-delegate this authority to the appropriate level at each campus. The group recommends retaining authority at a fairly high level, though it recognizes that for this delegation to be truly effective, each campus will need to determine what will work best with its local management structure and approval processes.
3. Clarify that in support of this delegation, each campus is expected to have in place a defined structure and process for approving F&A waivers. Any specific considerations should be provided via systemwide policies and guidance.

Successful implementation of this recommendation will more closely link decision-making authority on indirect cost waivers with local accountability for the fiscal health of the University. Given the new funding streams model, which enables campuses to retain recovered indirect costs along with the responsibility for any deficits or subsidies incurred, it makes sense that the persons charged with deciding when to waive recovery reside at the campuses, where they can better understand and explain the local impact of those decisions. While we do not anticipate any immediate changes to waived costs or indirect cost recovery as a result of this recommendation, it properly unites authority for decision-making with responsibility for outcomes.

The majority of Workgroup and Advisory Group members were highly supportive of this recommendation. A number of campus administrators were optimistic that it would lead directly to increased indirect cost recovery. Others were skeptical of this claim, but were supportive of the change for the sake of clarifying roles in decision-making. Only one member observed that the effect might be “unpredictable, but not obviously detrimental.”

RECOMMENDATION 2:

ELIMINATE SYSTEMWIDE CLASS WAIVERS AND INSTEAD PROVIDE A LIST OF VERIFIED SPONSOR EXCEPTION POLICIES TO INFORM LOCAL DECISION-MAKING.

Under current policies and practices, a waiver may be granted for either an individual project or a class of projects from a specific sponsor. Individual waivers are valid only for a named single award. A class waiver applies to all awards from a specified sponsor or program.

Class waivers have been an important tool for the University. In cases where a sponsor policy restricts recovery on a particular type of award, the University may choose to waive indirect cost recovery, in order to access a unique type of research funding (e.g. NIH training grant funds). In these cases, the review of multiple individual waiver requests can be redundant and burdensome, since the University is likely to approve all waiver requests for this class of awards. To address this, a campus may choose to request a class waiver which, once reviewed and approved, can then be automatically applied to all applicable awards from that sponsor, eliminating the need for further requests and approvals. This can be extremely useful in keeping administrative costs low, since class waivers are often granted for high-volume awards, where reviewing the merits of each individual request would be time-consuming and unproductive. A number of the comparator universities also publish similar lists of pre-approved sponsor exceptions (for examples, see U. Minnesota, U. Wisconsin, U. Minnesota).

The question is whether class waivers should continue to be managed in their current form. UCOP currently reviews and approves all class waiver requests.[8] Systemwide class waivers are approved only when based on a verified sponsor

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[8] *As of 2012, 1900 systemwide class waivers are currently approved for use on UC campuses.*

policy, and are not available to for-profit sponsors. UCOP's primary consideration in evaluating class waiver requests is whether or not the sponsor's stated policy stands up to scrutiny. Is the policy a true policy or just the desire of an individual sponsor representative? Is the policy available publicly? Is it applied universally to all awardees? Is it consistent with other policies from the same sponsor? This is important because it can help identify where sponsor policies are not consistently applied, where they have expired, or where there may otherwise be room for negotiation. UCOP verifies sponsor policies to ensure that they are consistent with our requirements and resolves any issues prior to approving class waivers based on those sponsor policies.

UCOP does not, however, weigh the costs and benefits of accepting this class of awards when considering requests for a class waiver. These decisions could depend on the number and type of awards and the financial impact to the campus of using the class waiver in question. Considerations may vary from campus to campus.

This lack of campus-specific cost-benefit analysis can be a problem, since once a class waiver is approved by UCOP it may be used *on any campus* to waive indirect costs for further awards of that class or type without further review by UCOP, and with only administrative review by the campus. This may allow some projects to by-pass full campus consideration, incurring financial burdens in support of indirect costs which campus decision-makers may not be aware of.

It is therefore recommended that UC discontinue the use of all systemwide class waivers. Instead, campuses may choose to authorize the use of rates from a Verified Sponsor Policy List (see below), depending on the research portfolio for that campus and its financial needs.

This Verified Sponsor Policy List will be maintained by UCOP, providing a curated list of sponsors or sponsor programs whose policies meet a specified set of systemwide standards. Campuses may authorize the use of the rates on this list directly for their campuses. They may also refer to the list to help them in evaluating individual waivers from sponsors who are not on the verified list. Campuses would record the use of the verified sponsor policy list on a project-by-project basis. Maintaining this list at the systemwide level will help analysts identify when sponsor policies are applied inconsistently across campuses, and will prevent the need to maintain duplicate lists at each campus.

Recommended Actions:

1. Eliminate existing systemwide class waivers. In their place, UCOP should establish a regularly maintained and updated Verified Sponsor Policy List. To qualify for the Verified Sponsor Policy List, a sponsor's policy must be a publicly published and universally applied to all awardee institutions. For-profit sponsors will not be permitted on the Verified Sponsor Policy List.
2. Campuses may choose to authorize the use of rates from the Verified Sponsor Policy List on their campuses, or they may choose to require that waivers be requested and reviewed for each individual proposal, even where a sponsor's policy appears on the list.

Further details regarding the process for maintaining and updating the Verified Sponsor Policy List should be developed by UCOP, with appropriate consultation with local campus administrators. To keep the list manageable, it is recommended that reasonable standards be established for additions to the list, and that expiration dates be built into each entry, prompting the review of a sponsor's policy on a regular basis (every three to five years). To evaluate the usefulness of this resource, processes should be put in place to measure how often campuses authorize the use of rates from the Verified Sponsor Policy List, and how often those authorized rates are used by the campuses to waive indirect cost recovery on an award.

If this recommendation is implemented successfully, campuses will have the ability to decide which (if any) of the Verified Sponsor Policy List rates are appropriate for use at their campuses, while continuing to benefit from the support of UCOP in comparing and verifying sponsor policies. While we do not necessarily anticipate any immediate changes to waived costs or indirect cost recovery as a result of this recommendation, it may provide several benefits. Use of this approach will offer a more transparent process to campuses, help make clear the roles and responsibilities of each of the involved parties, and may prevent older class waivers from being misapplied to current sponsor programs for which the class waiver was not intended.

RECOMMENDATION 3:

DEVELOP COMPREHENSIVE AND EFFECTIVE REPORTING ON WAIVERS AND INDIRECT COST RECOVERY.

UCOP should continue to work with campuses to develop more accurate and consistent reporting on indirect cost recovery in order to better support the campuses, the President and the Regents. Existing campus and UCOP resources should be leveraged to develop clear definitions and standards, better data linkages and more accurate analysis of indirect cost recoveries and losses. Working with the UCOP Research Enterprise Management System (REMS), Contracts and Grants system (CGX), the UC corporate financial reporting systems (CFS), as well as existing campus systems and capabilities, improvements should be achievable without significant additional costs or administrative burden.

Recommended Actions:

1. UCOP should work with campuses to develop effective methodologies for analyzing and reporting on the use and outcomes of indirect cost waivers and to highlight and share best practices and insights into waiver trends, issues or opportunities.
2. UCOP should continue to work with campus leadership to improve upon UC's capacity to accurately analyze and report upon waivers and indirect cost recovery, using existing capabilities wherever possible to ensure minimal cost and administrative burden. This includes:
    a. Working with campus representatives to clarify and enhance data standards for existing quarterly reporting of extramural funding proposal and award activity;
    b. Working with campus leadership to define and develop standard reporting tools (using the new Decision Support System implemented by UC Institutional Research) to provide data on actual under-recovery on awards resulting from specific indirect cost exceptions.
        i. Dashboards could be developed to provide visual explanations of these data, enhancing campuses' ability to communicate the issue of indirect cost under-recovery to staff, faculty, and other interested parties.
    c. Working with campus contracts and grants offices to develop and implement changes to the Research Enterprise Management System (REMS) to support ease of use by the campuses of a Verified Sponsor Policy List (see Recommendation 2), and track usage of the list to ensure it is providing value to the campuses and effectively tracking indirect cost under-recovery on a project-by-project basis.

There was some concern, expressed by members of the Workgroup and other reviewers that these efforts should not result in additional administrative or financial burden to the campuses. To address this concern, it will be imperative that the scope of any efforts resulting from this recommendation be driven largely by the needs of the campus leadership with responsibility for sound fiscal management of campus finances. Existing UCOP and campus resources must be exploited to the full extent possible, and UCOP and campuses must work in close collaboration to ensure results are achieved through the simplest and most cost-effective mechanisms.

Improved analysis and reporting tools will help campuses better analyze waivers, determine how much of their waived costs is recoverable (and how much is not), and provide more visual, and interactive ways to communicate this data with their constituents. While we do not anticipate any immediate or direct changes to waived costs or indirect cost recovery as a result of this recommendation, the continued and additional insights provided will help campuses make more strategic decisions with respect to indirect cost waivers.

RECOMMENDED CHANGES TO SYSTEMWIDE POLICIES AND PRACTICES:

RECOMMENDATION 4:

ISSUE A CLEAR, EASILY-REFERENCED SYSTEMWIDE POLICY STATEMENT AND GUIDANCE ON THE UNIVERSITY'S PRINCIPLE OF FULL COST RECOVERY.

The University of California has a long-standing policy supporting the full recovery of indirect costs. University of California Regulation No. 4 (codified in the Academic Personnel Manual) states that:

> *For all tests and investigations made for agencies outside the University, a charge shall be made sufficient to cover all expenses, both direct and indirect. (APM-020, Section II, Item 3.)*

Further rules governing indirect cost recovery, the negotiation and approval of indirect cost rates, and exceptions to established rates are derived from multiple policy and guidance sources, such as the Regents' Standing Order 100.4 (m), Chapter 8 of the UC Contract and Grants (C&G) Manual, and additional formal guidance issued by UCOP.

Nowhere does there exist, however, a single, easily-referenced policy that clearly explains the University's position on full cost recovery. Such a statement could help campuses better communicate with faculty, researchers, sponsors and administrators and convey the real need to fully reimburse the University for indirect costs associated with research projects. A clear, unified statement from UC may also provide an important voice in state and national debates surrounding full cost recovery. A number of the surveyed comparator institutions have publicly available policies on indirect cost recovery (for examples, see Stanford, U. Minnesota, U. Michigan, and U. Wisconsin).

It is therefore recommended that UCOP develop a strong policy statement and guidelines that make clear the University's position on full cost recovery, and the reasoning behind its rules and practices. This statement should be written in clear, straightforward terms, using language that is easily understood by those unfamiliar with the complexities of research administration. The statement should be broadly published and made widely accessible, so that it can be easily referenced by campuses to help support them in enforcing local policies and procedures.

Recommended Actions:

1. **Systemwide Policy Statement.** UCOP should develop for systemwide adoption a strong policy statement reinforcing the University's long-standing principle that sponsors should pay the full costs of conducting research at the University. This statement should be as broadly applicable as possible, encompassing all research and research-related activities.

2. **Systemwide Waiver Guidelines.** UCOP should provide a set of systemwide guidelines to help campuses apply the above-referenced policy consistently across campuses. These should include clear guidance on situations where it is acceptable or not acceptable to consider indirect cost waivers. *Systemwide guidelines should be clear enough to provide for consistency among campuses in the application of systemwide policy, but allow for enough flexibility so that campuses may properly judge what is of vital interest to their campuses;*
    a. The workgroup recommends the current language describing criteria for campus vital interest waivers as a good starting point for considering systemwide guidelines (C&G Manual 8-634);
    b. Other considerations may arise over time. Some guidelines may require reconsideration, based on their applicability and practical results. The workgroup recommends reviewing guidelines on a systemwide basis at appropriate intervals to allow them to be renewed and updated, as needed.
3. **For-Profit Waivers.** UCOP should issue strong guidance specifying that indirect cost waivers are generally not appropriate for for-profit sponsors, unless they are for projects of a genuine philanthropic or public service nature in which the sponsor does not receive a direct commercial benefit. Except in such limited cases, the University should not be subsidizing the research of for-profit sponsors by waiving indirect cost support. For industry-sponsored philanthropic or public service research projects, limits on IP rights and administrative requirements may apply. Language to be considered can be found in the third paragraph of C&G Manual 8-633 Sponsor Policy. A number of surveyed comparators discourage waivers for for-profit sponsors; some specifically prohibiting them in their policies. For examples, see Stanford, Harvard and U. Wisconsin.

The Workgroup, Advisory Group, and campus reviewers were generally in support of a systemwide policy statement and guidelines. Some members felt that explicit guidelines, particularly those containing prohibitions, were unnecessary, since campuses could make their own decisions. Others felt that strong guidance was necessary to ensure a systemwide common understanding, and provide help to campuses which need it.

It should be noted that while there was general agreement to limiting waivers for **for-profit sponsors**, there were also strong concerns expressed. While most of the Workgroup and Advisory Group were in support of the recommendation, a few members felt strongly that this decision should be left to the campuses to be made case by case, based on the merits of the individual project and sponsor relationship. Some members pointed out that industry exceptions are almost never requested; and when they are it is always based on a vital campus interest. Other members expressed concern that this might negatively impact our overall relationship with industry partners, affecting broader activities and benefits, such as the funding of graduate fellowships through industry foundations, or opportunities from collaborative industry membership or affiliate programs. However, estimates of unreimbursed indirect costs on for-profit research projects are fairly significant, approximately $30 million in FY2011-12.[9] The Workgroup recommends that guidance developed in these areas carefully consider whether exceptions to this policy are appropriate, and if so, how such exceptions might be managed, without weakening the impact of the policy itself.

If these recommendations are successfully implemented, the above policies and guidelines would serve as a valuable communications tool to help explain the University's position on full cost recovery and support campus-wide standards in waiver policies and practices. While we do not anticipate any immediate changes to waived costs or indirect cost

[9] *The 2010-11 Corporate Financial System Report (CFSRP10-A) used to compile data for the NSF Survey or Research and Development Expenditures estimates unreimbursed indirect cost recovery for industry sponsors at approximately $32 million. These estimates use MTDC and an indirect cost recovery rate equivalent to that of the federal government rate.*

recovery as a result of this recommendation, at minimum it will help campuses communicate the importance of indirect cost recovery to its faculty, sponsors and administrators.

NOTE: The Workgroup also discussed whether it was appropriate for the University to consider waiving indirect cost recovery for ***foreign government sponsors****. Since no general consensus was reached, the Workgroup would like to forward this as an issue for future study and consideration. See* *Ideas for Future Consideration* *for more information.*

RECOMMENDATION 5:

CENTRALLY PUBLISH A SET OF SYSTEMWIDE MINIMUM RATES FOR SPECIFIC TYPES OF PROJECTS OR SPONSORS WHERE EXPECTATIONS FOR COST RECOVERY MAY DIFFER FROM STANDARD PRACTICES (E.G. CLINICAL TRIALS, INDUSTRY-SPONSORED RESEARCH).

Historically, UC has defined the standard for "minimum expected recovery" as recovery at federally negotiated indirect cost rates, with very limited exceptions. However, for some types of research (e.g. clinical trials or industry-sponsored research), it may be more appropriate to adopt a different standard for expected recovery.

The problem with using federally-negotiated indirect cost rates as a standard for expected recovery is that over time these rates have fallen well-below our actual costs. While campuses propose rates based on a careful examination of actual costs for a given period of time, a number of restrictions are applied by the federal government, both during and after negotiations, which arbitrarily reduce rates of recovery. For example, the federal government caps the amount it is willing to pay for administrative costs at 26%, despite the fact that UC rate proposals generally demonstrate administrative costs that are much higher. UC concedes these and other restrictions based on its long-term partnership with the federal government, and the high-volume of UC research federal agencies support (over 55% of total research). As such, these rates are what we expect to recover in indirect costs on **federally-sponsored awards**.

For **non-federal sponsors**, using federal rates as a standard for expected recovery means granting these sponsors the same concessions we give to the federal government. For some categories of sponsors, it may be appropriate or expedient to adopt a standard for expected recovery that falls short of fully reimbursing university costs.

For **for-profit sponsors**, however, it is inappropriate to commit university resources to subsidize research projects that primarily benefit businesses or industry. Hence, the concessions we grant on federal rates may not be appropriate to apply to industry-sponsored research. For for-profit sponsors, it may be more appropriate to use the un-discounted reimbursement rates calculated by the campuses as a standard for expected recovery, since these more accurately reflect the true costs of indirect research support. Some institutions surveyed in our comparator study do just this, using an industry-sponsor rate that is separate (and higher) than their federally-negotiated rate. Rates range from general parity with federally-negotiated rates (applied to MTDC) to much higher rates. For example, Johns Hopkins Medicine applies a 72% TDC rate for commercial sponsors, which is more than 10 points higher than their federally-negotiated rate); and Yale encourages the use of an "uncapped research rate" for all non-federally sponsored projects which is 4 percentage points higher than their federal rate.

For **clinical trials,** a broader industry standard has been adopted at UC for industry-sponsored clinical trials, which applies a lower rate (26%) to the higher cost base (Total Direct Costs). This standard was generally agreed to by campus administrators in 2006, and has served as a general guideline ever since. It may be time, however, to revisit this rate to determine whether it is meeting campus needs. UCSF, for example, has recently adopted a 33% TDC rate; and a quick survey of other non-UC research institutions shows clinical trials rates ranging from 25% TDC to 34% TDC.

For both **clinical trials and industry-sponsored research**, UC should adopt an appropriate standard for minimum expected recovery that is recognized systemwide. This standard could either be a single uniform rate or a methodology for arriving at a campus rate. Either method would provide strength in numbers, establishing solidarity among UC campuses in any negotiations with sponsors, and establishing a rate that is more easily explained to faculty, sponsors and administrators.

Furthermore, standard rates would simplify administration for these types of research projects. A project that uses a systemwide standard rate would not require an indirect cost waiver, since recovery on that rate would be considered "expected recovery" for that type of research. Standard rates could also be applied to Total Direct Costs (TDC) in order to further simplify budget development.

Other types of research where special rates generally apply may also benefit from a systemwide standard. For example, rates used for **state-sponsored research** regularly range from 0% to 25% MTDC, and **projects awarded by UC research programs** generally waive all indirect costs for UC campuses (with some exceptions). This wide range of accepted rates sends an inconsistent message to sponsors, reinforcing the mistaken impression that indirect costs are "not real". UCOP is currently working on negotiating a state agreement that would set a uniform state reimbursement rate. UCOP is also considering its own policies on indirect cost reimbursement for research funding provided to the campuses. It would greatly simplify administration if these new rates could be adopted as standard rates.

Recommended Actions:

1. **Clinical Trials Rate.** The workgroup recommends officially adopting a systemwide clinical trial rate (or a standard methodology for arriving at a rate), which the campuses may apply to projects which meet the systemwide definition of a clinical trial.
   - It is recommended that a systemwide process be established to set and regularly review the clinical trial rate and definition. This process should include a methodology that evaluates the rate against comparable institutions and calculates whether the rate is generally sufficient to cover the costs of supporting this type of research.
   - This rate would be considered the standard minimum expected recovery on projects of this type. Campuses would be allowed to apply a higher rate at any time. To apply a lower rate than the systemwide established rate would require a campus waiver.
2. **Industry Sponsor Rate.** The workgroup recommends establishing a standard rate for industry sponsors (or a standard methodology for arriving at this rate) that reflects the full costs of conducting this type of work. This standard rate should reflect the true cost of supporting this research.
   - It is recommended that a definition be provided for industry-sponsored projects where this rate would apply, including the possibility of exceptions for industry-sponsored projects of a truly philanthropic or public service nature (see Recommendation 4 above for a discussion of when for-profit waivers might be appropriate). Note that IDC associated with industry affiliates programs often receives unique treatment; see section on "ideas for future consideration" for a discussion of industry affiliate program rates.
   - This rate would be considered the standard minimum expected recovery for industry-sponsored projects. Campuses would be allowed to apply a higher rate at any time. To apply a lower rate than the systemwide established rate would require a campus waiver (if allowed – see Recommendation 4 for a discussion of when for-profit waivers might be appropriate).

  - It is recommended that a systemwide process be established to set and regularly review the industry sponsor rate and definition. This process should include a methodology that evaluates the rate against comparable institutions and calculates whether the rate is sufficient to cover the costs of supporting this research.

3. **State-sponsored research rates.** The current standard for a state rate is 25% on MTDC, though in reality, campuses receive rates ranging from 0-25%.[10] The rates for state-sponsored research are currently being renegotiated and would likely apply on a systemwide basis. Once this rate is approved by the negotiating parties, it should be adopted as a systemwide rate for state-funded research;
   - This rate would be considered the standard minimum expected recovery on state-funded projects. Campuses would be allowed to apply a higher rate at any time. To apply a lower rate than the systemwide established rate would require a campus waiver.
4. **Inter-campus research rates.** Some research programs at UC have a standard practice of paying reduced or zero indirect costs when making awards to UC campuses. When these programs also make awards to entities external to UC, allowing greater indirect cost recovery than UC campuses receive, this practice can disproportionately disadvantage UC campuses as compared to non-UC awardees. These reduced or waived costs also send an inconsistent message to faculty, external sponsors, and others, reinforcing the mistaken impression that indirect costs are "not real". Charging an indirect cost rate that is appropriate to the sponsor would be more consistent with our policies on full recovery, and help reinforce the basic understanding that indirect costs are real costs which end up being paid for by the hosting campuses when they are not reimbursed by project sponsors.
   - The Workgroup recognizes that there are different types of intercampus research programs managed by UC; some of which are funded from revenue sources originating from outside of UC (external funds) and some of which are supported directly by UC internal funds.[11] For UC-administered programs supported by external funds, the Workgroup recommends developing a standard inter-campus research rate which would allow campuses to recover indirect costs at a rate commensurate with the type of sponsor or originating fund source. This rate should be consistent with rates offered to non-UC institutions, where applicable. Programs funded by internal UC funds have some additional considerations and are discussed below.

It should be noted that while there was strong support for the adoption of an **Industry Sponsor Rate** in both the Workgroup and Advisory Groups, there was also great concern expressed about how this recommendation would be received, both by the faculty and by research sponsors. While most Workgroup members agreed that a single, uniform rate or a carefully considered uniform methodology would help to communicate indirect cost needs with industry sponsors, some members of the Advisory Group objected that such a practice would damage relationships with faculty and sponsors. Other Advisory Group members support the recommended practice. Despite the diversity of opinions,

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[10] *25% MTDC has historically been put forth as a standard to address the fact that state agencies had no clearly stated policy regarding reimbursement of indirect costs, suggesting an "official" policy of recovery that might be palatable to State agencies. Over time, some State agencies have come to assume it is our "true" State rate.*

[11] *Some examples of current programs supported by revenue sources outside of UC are: the UC Lab Fees Research Program, which currently charges the full federal indirect cost rate to awardees, and state-funded research programs like the California Breast Cancer Research Program or the Tobacco-Related Disease Research Program, which are currently transitioning to charging UC campuses a rate commensurate with state funded research. Examples of current programs supported by internal UC funds are the Multicampus Research Programs and Initiatives (MRPI) and the Proof of Concept (POC) awards.*

the Workgroup believes that this recommendation is worth at least piloting for a period of time to better assess both obstacles and impacts.

There was also a wide range of opinions on developing a standard **Inter-campus research rate** for UC-administered award programs funded by internal UC funds**,** which would allow recipient campuses to recover their indirect costs under these awards. A number of Workgroup and Advisory Group members felt that this was an important recommendation to reinforce consistency in our policies. Some argued that campuses should not be required to subsidize the indirect costs of a research program just because it is awarded by UC. However, there was also strong concern that such a practice might disproportionately impact research fields like the humanities, arts, behavioral and social sciences (HABSS). One argument is that such a practice would decrease the overall direct funds available to support this type of work which, by definition, occurs any time the allocation for indirect costs increases in proportion to direct costs without an overall increase in funding. This was of particular concern for programs that sometimes award funds to one campus which are then re-competed as awards to other campuses. In these cases, it was argued, an inter-campus rate that is applied each time the funds are awarded between campuses would successively reduce the amounts available to directly fund research. With small awards, as is the case in HABSS fields, this can be especially critical. These are all serious concerns, which merit careful consideration. To address these concerns, the Workgroup is limiting its recommendation to UC-administered award programs that are **externally-funded**, where there seems to be general consensus that indirect cost recovery should be commensurate with the type of external funding support. For programs funded by internal UC funds, the Workgroup recommends further study and discussion (see *Ideas for Future Consideration*).

Paradoxically, these specific measures may cause an apparent increase in the waived indirect costs (or estimates of under-recovery) in the short-term, since it may take a number of years to acclimate industry (or state) sponsors to higher rates. However, since these changes would simplify administration and help more clearly communicate indirect cost needs to sponsors; the Workgroup believes that the benefits of implementing these recommendations justify the difficulties.

*NOTE: The Workgroup also examined the special rates that are applied as waivers to research sponsored by **Agricultural Marketing Order Boards,** where it has generally been the practice to waive all indirect costs. The Workgroup also discussed whether special rates or waivers should apply for **Industry Affiliate Programs**. While the Workgroup touched on these issues in their discussions, it was decided to defer these items for future consideration due to the complexity of the issues involved.* *See Ideas for Future Consideration for more information.*

RECOMMENDATION 6:

ISSUE A SYSTEMWIDE POLICY ENCOURAGING CAMPUSES TO CHARGE RELEVANT FACILITIES AND ADMINISTRATION COSTS AS DIRECT COSTS TO NON-FEDERAL SPONSORS IN CASES WHERE INDIRECT COSTS ARE NOT ALLOWED.

In general, UC applies the rules governing allocation of expenditures that are used for federal awards to non-federally-sponsored research, unless otherwise specified by non-federal sponsors. This is primarily for ease of training and administration, since federally-sponsored projects account for the majority of research expenditures at UC.

However, when a non-federal sponsor restricts the amounts of indirect costs they are willing to pay on a research award, they may still be willing to pay for certain expenditures as direct costs which would generally be categorized as indirect costs using federal guidelines. Since federal rules do not extend to these types of projects, it is perfectly acceptable practice to charge these types of expenditures as direct costs to these projects, as long as they are not specifically prohibited by the non-federal sponsor. Many comparator institutions surveyed allow (and even encourage) their departments to charge F&A costs to non-federal sponsors as direct costs, where allocable and allowable (for examples, see Yale, Stanford, U. Illinois, U. Michigan and U. Minnesota).

We therefore recommend that UCOP put in place a systemwide policy to encourage campuses to direct charge facilities and administration expenses to non-federal sponsors, where sponsor policies do not provide support for indirect costs and do not prohibit these charges as direct costs.

Recommended Actions:

1. **Systemwide Policy Statement.** UC should develop a strong policy statement on the recovery of facilities and administration costs as direct charges to non-federal sponsors. This statement should be easy to access, understand and reference, so that it can be used by campuses, when needed;
    - The workgroup is currently considering language similar to that provided in the Yale policy: http://www.yale.edu/ppdev/policy/1405/1405.pdf;
    - These policy statements should be accompanied by guidance to the campuses on how to implement these policies in a way that is consistent with federal costing policy guidelines.
2. **Costing Policy Review.** The UCOP Costing Policy Office, in consultation with similar campus-based units, should examine current University Direct Costing Procedures, as well as other related policies, to evaluate whether current direct costing policies support recovery of all applicable direct costs from external (non-university) sponsors.
    - With respect to non-federal sponsors, this group should specifically develop appropriate guidance as to when and how it is allowable and/or desirable to deviate from the rules governing federal grant cost allocation;
    - With respect to federal sponsors, this group should specifically re-examine the ways in which federal rules are being interpreted by UC's costing policy administrators to ensure that our guidance is clear, up-to-date and adequate to the recovery all applicable direct costs.

It should be noted that the effect of this policy would be very hard to measure, since detailed data on how costs are allocated are not available at the systemwide level. It would be difficult to tell if the policy were being followed without a detailed examination of proposal budgets. And paradoxically, successful implementation of this policy may cause the apparent amounts of unreimbursed indirect costs to increase, since the policy will generally increase direct costs (and related indirect cost estimates) specifically on projects where indirect costs are being waived.

However, the real value of this recommendation comes from a careful examination of these practices, and promoting the sharing of information and best practices for recovering direct and indirect costs across campuses. Therefore, the Workgroup recommends these changes, provided that the appropriate care and consultation with legal and costing policy experts is undertaken to evaluate the impact of these changes upon our federal rate negotiations and sponsor partnerships.

COST RECOVERY TOOLS FOR CAMPUSES TO CONSIDER FOR ADOPTION INTO LOCAL POLICIES AND PRACTICES:

COST RECOVERY TOOL (A): RESEARCH INFRASTRUCTURE FEE.

To assist in the recovery of funds to support the ongoing maintenance and upkeep of UC's research infrastructure, the Workgroup recommends that campuses consider implementing a minimum research infrastructure fee for projects where sponsors do not provide support for indirect costs. This might be implemented along a similar line as the **Stanford model** (see Comparator Data in appendix for a summary). For example: If the approved waiver amount is below the minimum research infrastructure fee, the PI (with the help of the department or campus) would need to find a way to provide for the difference.

- Options for how the fee could be covered include: direct charging as a direct cost to the sponsor, convincing the sponsor to cover the fee as an indirect cost, or the PI could work with their department or campus to identify another source for this fee.
- Mechanisms should be considered to help subsidize fields with more limited access to external funding. Caution should be taken, since the lack of discretionary funds on a campus or in a department would likely result in those groups not being able to accept awards if there was a minimum F&A rate.

If successfully piloted on one or two campuses, this recommendation might be further explored as a systemwide research infrastructure fee. This would provide better campus support for their policies through systemwide consistency and unity in addressing sponsors.

COST RECOVERY TOOL (B): A TIERED- OR EXPEDITED- REVIEW.

To help reduce the burden of reviewing and approving waiver requests, the Workgroup recommends that campuses consider a tiered-waiver review process, which would provide for an expedited review of smaller grants below a certain $ threshold, and a more intensive review for grants above a certain $ threshold. This might be implemented along similar lines to U. Minnesota's model (see Comparator Summary in appendix). This would allow for a reduced administrative burden in gaining approvals on small awards, while ensuring larger projects have an appropriately rigorous review. If this type of tiered review is adopted, a process should be put in place to regularly review thresholds and their impact upon indirect cost recovery.

COST RECOVERY TOOL (C): INDIRECT COST RECOVERY RELIEF FOR GRANTS IN THE HUMANITIES OR OTHER FIELDS WITH LIMITED RESEARCH FUNDING.

To support the implementation of policies and practices to more aggressively recovery indirect costs, campuses should consider formalizing processes which might provide indirect cost relief to research in the humanities, arts or fields where limited funding results in sponsors who are reluctant (or unable) to provide support for indirect costs. An interesting model to consider is MIT (see Comparator Summary in appendix), where funds are provided to specific departments to assist in funding indirect costs plans for projects where sponsors limit indirect cost reimbursement..

IDEAS FOR FUTURE CONSIDERATION

Included in the above recommendation are a number of ideas that the Workgroup felt could have meaningful implications for indirect cost recovery, where the Workgroup was unable to reach consensus to form a full recommendation. The Workgroup would like to forward these ideas here for future study and consideration. In addition, the Workgroup has also included a number of ideas that, while outside the immediate scope of the Workgroup's charge, we believe would greatly improve current practices and support campuses in achieving better rates of indirect cost recovery.

1. **Research Gifts.** The Workgroup noted an increase in funding characterized as gifts to be used for research. Some of these gift funds come with restrictive terms and conditions that require the funding to be classified as grants under the University's 1980 Gift/Grant policy. However, even when such restrictive terms are not included, performing research using gift funds requires significant infrastructure support from the campuses. These costs generally exceed the amounts reimbursed through the usual nominal "gift taxes" or fees. In cases where donors are unwilling to provide indirect cost support for the research, campuses are inherently required to engage in cost sharing with their own resources to perform the research.

   Another issue associated with research gifts is the practice of some corporations to specifically provide funding to be used for research in the form of a gift to reduce or eliminate the standard indirect costs that would otherwise apply. The Workgroup was informed of instances in which corporations had entered into unfunded collaboration agreements with campuses and later provided funding as an ostensible gift to support the same scope of work.

   Because this issue occurs outside of the current waiver process, the Workgroup recommends further study of this issue, and consideration of whether it would be appropriate to assess a higher "gift tax" on gifts for the performance of research. Given the potential impact in this arena, the Workgroup recommends that action be taken to make significant progress on this issue within the next 12 months.

2. **Campus and Systemwide Communications**. One of the greatest barriers to improved indirect cost recovery is the general lack of understanding – on the part of faculty, administrators and sponsors alike – regarding the basics of how indirect costs work. There are many myths in circulation regarding how indirect cost rates are established, how rates affect proposal competitiveness, whether costs are real, and how recovered funds are distributed. Greater clarity and understanding is needed in order to help campuses build faculty support for indirect cost recovery. A number of efforts have been undertaken in the past, to provide primers or summaries at the campus or systemwide level that might explain the basics. These should be revived (and simplified) at the systemwide level to provide basic facts and answers to frequently asked questions that are easy to understand and reference; and to engage a campus-wide dialogue on indirect costs. Given the priority this issue received in our feedback, the Workgroup recommends that action be taken on this issue within the next 12 months.

   Also, given the strong feedback the Workgroup received regarding the need for campus faculty to better understand how recovered costs are distributed on their campuses, the Workgroup strongly encourages campuses to provide greater clarity and transparency on how indirect costs are being distributed under the new funding streams model.

3. **Inter-campus Research Rate: Internally-Funded Programs.** In discussing the merits of establishing an inter-campus research rate, the Workgroup found it useful to make a distinction between programs that were funded from revenue which originated from outside of UC (externally-funded programs) and those with internal UC funding sources. There was particular concern about internally-funded programs, and particularly the impacts to HABSS fields, which the Workgroup felt deserved more careful consultation and consideration than could be provided here (see additional discussion in Recommendation 5). Therefore, the Workgroup recommends further study on this issue. Due to its priority, we recommend action be taken within the next 12 months.

4. **Agricultural Marketing Order Boards.** Workgroup members discussed the reasons – historical and philosophical – behind why UC subsidizes the agricultural industry over other industries in California. It also had some concerns about whether the Market Order Board waiver is being applied appropriately (e.g., was the original intent of the waiver that it be extended to federal as well as state market order boards?). This is a relatively specialized area of research, affecting primarily Davis, Riverside and Agriculture and Natural Resources. However, while it was acknowledged that the current arrangement is overdue for a reassessment, it was determined that there is insufficient expertise within the Workgroup membership to fully consider the issues and form a meaningful recommendation. Therefore, and recognizing that this issue primarily affects two or three campuses, we recommend that a small, focused group be formed to further study this issue.

5. **Waivers for foreign government sponsors.** The Workgroup discussed whether it was appropriate for the University to consider waiving indirect cost recovery for foreign government sponsors. Some Workgroup members felt that, as with for-profit sponsors, the University should be not be subsidizing the research of foreign governments, or giving them a better “deal” than we give to our own government, by waiving indirect cost support (unless the projects were of a genuine philanthropic or public service nature). Other members pointed out that research sponsored by foreign entities generally had philanthropic or public service aims, and as a result would likely qualify under the exception, in any case. In this regard, the foreign government sponsors are more similar to charitable foundations than for-profit sponsors. Some members also observed that our own government does not pay full indirect costs when sponsoring research in foreign countries and that it seemed inconsistent to hold foreign governments to a different standard for overseas research than would be applied to the U.S. Some members thought the choice should be left to the campuses, since the financial impact would be borne by the affected campus and would have to be considered in light of the campus’s research portfolio. Since no general consensus was reached, and the amounts at stake appear to be relatively small, the Workgroup would like to forward this as an issue for future study and consideration.

6. **Industry Affiliates Programs.** There are a number of industrial and corporate affiliates programs at UC, intended to facilitate long-standing relationships between UC faculty and their peers in industry, usually in a specific area of research. Participating companies develop close relationships with faculty, learn about research results, and meet undergraduate and graduate students entering the job market. Faculty, in turn, can inform their research efforts with industry expertise and perspectives, identify new areas of research, and secure essential funding for research and equipment. These programs, once set up, are relatively simple to administer, requiring no specific research deliverables. As such, most Workgroup members felt that it might be appropriate for campuses to allow lower indirect cost rates on these types of industry awards. However, due to time constraints and the range and complexity of programs which would need to be considered, the Workgroup declined to form a specific recommendation on this issue, choosing instead to forward it for future study and consideration.

7. **Alternate models for indirect cost distribution.** A number of parties suggested that campuses consider a model that returns some portion of indirect costs directly to the departments or units which generated them. This, it was argued, would help faculty and departments understand the local impact of waiving indirect costs, and help reduce the number of waivers. This was discussed by the Workgroup, and while members agreed it had merit, it was ultimately agreed that how resources are allocated on an individual campus should be a local decision and was beyond the scope of this group's work.

8. **Alternate models for funding campus indirect costs.** A couple of advisory group members suggested that campuses should consider different comparator models, including MIT's practice of requiring every proposal to have an indirect cost funding plan or MIT/Stanford's policy that requires indirect costs to be paid on amounts that are voluntarily committed as cost sharing. However, the Workgroup felt that these policies would be extremely difficult and costly to implement, and would require careful study and consideration before making any such recommendation.

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APPENDIX C: SUMMARY OF COMPARATOR DATA

Data Collection Summary

The Office of Research and Graduate Studies (ORGS) gathered information on indirect cost recovery policies and practices of ten comparator institutions to serve as background to the Waiver Workgroup. The ten comparator institutions are:

1. University of Illinois (Urbana-Champaign)*
2. University of Michigan*
3. University of Virginia*
4. Harvard University*
5. Massachusetts Institute of Technology*
6. Stanford University*
7. Yale University*
8. University of Wisconsin (Madison)
9. Johns Hopkins
10. University of Minnesota

The institutions with asterisks are among the "Comparator Eight" universities that the University of California compares itself for benchmarking purposes.

The ten comparator campuses were sent a questionnaire (a copy of which is included in the appendix); ORGS staff followed-up with respondents to clarify answers to the questionnaire. Additionally, ORGS staff researched publicly available policies from the comparators.

The questionnaires and a summary of the questionnaire responses along with supplemental data were shared with the Waiver Workgroup. What follows are highlights of some the policies and practices among the UC's peers.

All but one comparator has exceptions/waivers; policy and approval authority vary among comparators. Of the ten comparators, only MIT does not permit what UC would call an indirect cost (IDC) waiver/exception. UC has the most exhaustive published policy on IDC waivers/exceptions. And it has the most comprehensive tracking requirements among the comparators.

Many of UC's peers, while permitting IDC exceptions, typically have policies that are less nuanced and provide broad discretion to deans and department chairs to approve exceptions and develop local policies.

MIT seeks full recovery. MIT's policy is to seek full overhead on all sponsored research. If a researcher would like MIT to accept an award with less-than-full indirect cost recovery, then the researcher much request matching funds from a central or school-based fund to cover the difference. MIT sets aside about $11 million a year for matching funds, which are awarded based on the relative need of a given discipline; humanities, for example, are provided a relatively larger set of subsidy funds than engineering.

Minnesota's tiered approach. A distinguishing feature of Minnesota's waiver policy is the use of monetary and percentage thresholds in determining approval authority. In this model, departments are permitted to approve waivers for small projects under $50,000 (see Minnesota Waiver policy). Minnesota also establishes minimum recovery rates for different sponsor types; if a waiver yields recovery at or above a minimum rate, then the decision to waive remains with the school. If the recovery falls below the minimum rate, then the Vice President for Research must approve the waiver.

APPENDIX C: SUMMARY OF COMPARATOR DATA

Centralized vs. Decentralized Decision Making. Public institutions tend to be more centralized in how IDC waiver policy is developed and how waivers are approved. Private institutions, with the exception of Stanford and MIT, allow for college/school policy implementation and waiver approval.

Institutions like Virginia, Wisconsin (Madison), Michigan, Illinois, and in certain instances Minnesota have implemented policies that rely on central approval of waivers, coupled with very specific guidance as to when such approvals will be made.

Harvard, Johns Hopkins and Yale (despite very specific central guidance on IDC recovery), have decentralized approval processes based on local school decision-making.

By virtue of its policy of no IDC waivers, MIT is extremely centralized in its decision-making process, in that in cases where matching funds are to be applied, there is coordination between central and school administration in providing these matching funds. If matching funds are not available or if a PI will not provide his/her own non-restricted funds to cover a project under-recovery of IDC, MIT will not accept the sponsored project.

Stanford Model. Stanford features a centralized policy with pre-approved exceptions for sponsors with "written policies that are public and uniformly applied." It does provide case-by-case exceptions; however, these individual exceptions for specific awards are only approved on a limited basis, based on a set of criteria that assesses the fairness and impact of the under-recovery. Stanford does require a de facto minimum recovery of indirect cost on all non-federal funds via an **Infrastructure Charge** (see 2009 Stanford guidance memo); this 8% charge is applied to all extramural funds, including gifts and sponsored research awards with an indirect cost rate of 0%. While there is an exception process to the infrastructure fee, such an exception is rarely permitted; a PI must provide an alternate fund to cover the infrastructure charge if a non-federal sponsor either provides no IDC or will not allow the charge to the project.

Direct charging. Most comparators have detailed direct charging policies. UC does not have a systemwide policy on the permissibility of direct charging of costs that would normally be considered indirect for federal awards that fall under OMB Circular A-21.

Among UC's comparators, these policies range in their level of detail. Yale explicitly encourages direct charging when non-federal sponsors will not reimburse at its full F&A rate. This policy has been disclosed to DHHS in its Disclosure Statement (DS-2) as part of its F&A negotiation.

Special rates for non-federal sponsors. Particularly among private institution comparators, it is not uncommon to establish special rates for non-federal clinical trials and industry-sponsored research. Johns Hopkins medicine is the most aggressive when it comes to recovering IDC from industry sponsors, charging 72% TDC – a rate that is 10 percentage points higher than their federal rate. Yale, on the other hand, lists an industry sponsor rate equivalent to their federal on-campus research rate of 65.5% MTDC, but encourages their faculty to use a 69.2% MTDC "uncapped research rate" whenever possible for non-federally sponsored projects (see Yale guidance memo).

Many comparators have established a special rate for clinical trials, seeking 26% - 34% total direct costs. Institutions that do not have special clinical trial rates, generally public, rely on their on-campus research rates from their F&A agreements.

APPENDIX C: SUMMARY OF COMPARATOR DATA

University	On-Campus Federal F&A Research Rate (MTDC)	Industry-Sponsored Clinical Trials	Industry	Policy on Direct Charges of F&A costs to non-federal awards?	Identifies fund source for waived costs?	Other special rates or restrictions	Decision Making	Cognizant Agency
U. California	UC Average: 53.3%	26% TDC (UCI, UCD, UCLA, UCSD)/33% TDC (UCSF)	Federal F&A Rate	No Policy	No	For-profit, Foreign govt waivers limited to philanthropic or public svc.	Central	DHHS
U. Illinois	Champaign-Urbana (58.6%), Chicago (59%)	Champaign-Urbana (Unknown), UCI (25% TDC)	Federal F&A Rate	Yes	No	State rate (10% TDC)	Central	ONR
U. Michigan	55.5%	25% TDC	Federal F&A Rate	Yes	No	Non-Profits (20% or sponsor's published rate). Research Vessels (25%).	Central	DHHS
U. Minnesota	52%	26% TDC	Federal F&A Rate	Yes	No	Min. rates thresholds apply: For-profits (34% MTDC), State (0%), Non-Profits (10% TDC), Corporate Affiliates (10% TDC).	Hybrid (Tiering)	DHHS
U. Virginia	58%	School of Medicine (25% TDC)	Federal F&A Rate	Unknown	No		Central	DHHS
U. Wisconsin	50.5%	28% TDC	Federal F&A Rate	No Policy	No	Full rates charged to for-profits.	Central	DHHS
Harvard	68%/ 69% medical school	Unknown	Federal F&A Rate/TDC When Possible	Yes	No	Full rates charged to for-profits.	Decentralized	DHHS
Johns Hopkins	61.5%	34% TDC	72% TDC	Yes	No		Decentralized	DHHS
MIT	60.5%	Unknown	Federal F&A Rate	Yes	Full		Central	ONR
Stanford	57%	28% TDC	Federal F&A Rate	Yes	Partial	Waivers not available to for-profit or foreign govt sponsors.	Central	ONR
Yale	65.5%	30% TDC	Federal F&A Rate	Yes	No	Special rates apply for sponsors with no stated overhead rate.	Decentralized	DHHS