

Determination of Facilities and Administrative (Indirect) Costs of Research

A FASEB Consensus Conference Report

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Executive Summary

On February 6, 1995, the Office of Management and Budget (OMB) announced eight proposed revisions to Circular A-21 and asked for public comment on a separate set of issues to be considered for future implementation. The Public Affairs Executive Committee (PAEC) of the Federation of American Societies for Experimental Biology (FASEB) called for a consensus conference to develop a response. The PAEC asked the conference representatives to assess the OMB proposals to develop and test a model for the direct charging for space and to develop a standardized methodology for allocating costs associated with specialized service facilities, such as those for animal care. In addition, the PAEC asked the conferees to investigate and make recommendations regarding the issues of charging for secretarial support and for hazardous waste disposal. The development of policy for the distribution of expenditures between direct and indirect (now facilities and administrative or F&A) costs categories is an issue which working scientists should be given a strong voice. It was the objective of the conference to discuss and evaluate the proposed revisions to Circular A-21, both individually and in the context of the larger issues of F&A costs, and to provide a series of recommendations.

Direct charging of facilities costs: The representatives of FASEB's nine societies voiced strong opposition to the idea of direct charging for facilities costs. Furthermore, they felt that there was insufficient merit in this proposal to demand a formal test. Opposition was based on the view that this

proposal represented a step toward full cost recovery for research expenses. The conferees were unanimous in predicting that direct charging for space would have serious, negative consequences that would erode the effectiveness of research and would create tensions and morale problems at research institutions. Finally, direct charging would likely add substantial administrative costs and ignores the negative experience of effort reporting requirements.

Secretarial support: Secretarial and clerical assistance are used for both project- specific and departmental activities, and clarification is still needed on the policy of charging such support to grants. The conferees concluded that OMB and NIH need to indicate more clearly to grant administrators at research institutions that both are legitimate charges. It was recommended that the FASEB President write to OMB and NIH requesting them to restate the directives in this area to ensure that investigators are not prevented from charging secretarial support to their research grants. This should not, however, restrict those departments that charge such staff to F&A costs.

Hazardous waste disposal charges: The representatives to the conference also recommended that the charges for the collection and disposal of hazardous materials be treated consistently. For reasons of efficiency and safety, these costs are best handled as a part of the facilities component of the F&A costs. It was felt that OMB should not change the current classification of these charges, nor should it attempt to influence institutions to charge researchers directly.

Animal care costs: The conference representatives improved and extended the policies on animal care charges previously adopted by the FASEB Board. It was reaffirmed that the costs of maintaining animal facilities should be treated as F&A costs, as should the salaries of personnel involved in the overall administration of an animal facility. Only those costs that relate specifically to individual projects should be charged directly. Suggested changes in OMB Circular A-21 were proposed to implement these recommendations.

Conference Synopsis

Introduction

Facilities and administrative (F&A) costs of research, or indirect costs as they have been commonly called in the past, represent that portion of the research dollar that is dedicated to providing the infrastructure for carrying out scientific research at universities and other research institutions. They provide buildings, utilities and the services that are essential for modern research in biomedical (as well as other) sciences and have been a basic component of federally sponsored research from its inception. They are, unarguably, a fundamental requirement for these endeavors. However, F&A costs have also been controversial and clearly the subject of increasing concern and frustration on the part of scientists, institutional administrators and government officials (elected and appointed), the last charged with the responsibilities of allocating the federal dollar. Concerns have ranged from allowable charges (and the formulas utilized to determine them) to the distribution of services between the categories supported by direct and F&A funds.

Not surprisingly, the subject of F&A costs has been reviewed and discussed by a broad variety of agencies and associations that collectively represent the affected groups. Typically, legislators believe that these charges are spiraling out of control, a view that was enhanced by a number of very visible investigations into the individual practices of certain universities and institutions in calculating their charges and rates, while university administrators consider that these charges are sliding downward inexorably to levels insufficient to maintain their research communities. At the same time, there are long-standing disagreements between university administrators and the scientists who control the direct costs.

In 1991, FASEB visited this important issue in its first consensus conference on F&A costs. The summary document from those discussions reaffirmed the principles that (1) research-related F&A costs are a necessary part of the support of biomedical research; (2) research-related F&A costs should not be shifted to the direct cost category; and that (3) a task force, including research scientists, should be established to define and simplify F&A cost procedures.

Some four years later, the fundamental issues regarding the charging and distribution of F&A costs (particularly as opposed to direct costs) still remain to be fully resolved. Discussions under the aegis of the Executive Branch of the federal government have made some progress in redefining these issues, which resulted in changes in Circular A-21, the guidelines developed by the Office of Management and Budget (OMB) for the determination of these charges. However additional issues, that are potentially much more contentious and with far-reaching implications, still remain to be resolved. These include not only specific areas of concern, but also fundamental philosophical issues as well.

In previous documents and positions, FASEB has consistently taken the view that direct costs should be levied only against charges that can be related to expenses of individual research projects. Other expenses, including personnel, particularly as they relate to support services such as animal care and radioactive and hazardous waste management are, in a suitably defined way, part of the structure that should be provided for the performance of research and should be accordingly included in the F&A cost category.

FASEB has also adopted several important additional positions on F&A costs. In the first place, it strongly opposes the concept of full cost recovery as applied to this category as a whole. It believes that federal support of research is in the form of grants-in-aid and that the universities and research institutions which partner with the federal government for the performance of these investigations must bear part of the costs. It also has espoused the view that the federal government would not be called upon to pay for the construction of facilities through F&A costs mechanisms without participating in a peer reviewed analysis of the needs, design and cost of the facility before construction is initiated. Toward this end, the FASEB Board at its May 5, 1995, meeting endorsed the peer review process of all issues related to the benchmarking of research facilities, and called for this process to include the participation of scientists.

In the present consensus conference, FASEB chose to address two major aspects of the F&A costs issue

that still remain to be resolved. The first deals with the mechanisms by which these costs will be determined at an institutional level and the second the manner in which chargeable costs are distributed between the direct and F&A categories. The first part of the conference program was devoted to the issue of direct charging for facilities costs and a proposed experiment to test its feasibility. The second portion of the program was devoted to the discussion of topics related to the issue of distribution of expenditures between direct and F&A costs categories. OMB asked for public comment on these issues, which were part of a series of proposals for possible future implementation announced in the Federal Register of February 6, 1995. These proposals have significant implications for the individual investigator, and working scientists should be given a strong voice in their evaluation. It was the objective of the conference to discuss and assess these issues, both individually and in the context of the larger issues of F&A costs, and to provide a series of recommendations for further consideration by the larger group of administrators and legislators charged with determining the final structure of this cost category.

Direct Charging of Facilities Costs

The direct charging of research grants for the use of university facilities (including rent for laboratory space) is utilized by some private sector organizations but has not generally been a component of federally-sponsored research. The concept of direct charging for facilities represents a departure from the view that institutions should be expected to pay the salaries of their researchers and provide laboratory space. Traditionally, government grants-in-aid were designed to support and abet research, not fully reimburse institutions for all of their expenses. This concept that the government and the research institutions are a partnership has been fundamental to the long-term success of the basic research enterprise of this country.

In its February 6 announcement in the Federal Register, OMB proposed that the Federal Demonstration Project be asked to develop and test a model for charging space costs directly to research projects. It was hoped that the direct charging might strengthen the incentive to allocate space efficiently and clarify the true costs of research. It has also been suggested that direct charging of facilities is a method of subjecting these costs to the peer review process. FASEB invited a representative of the Federal Demonstration Project steering committee to the consensus conference, and the issue of direct charging of facilities costs was presented.

Objections to direct charging were strongly and unanimously voiced by the conference participants. Direct charging will not lead to the most efficient allocation of space, since there is not a free market for research space and in most research institutions there is a single provider of facilities. Thus, there will be no price competition to stimulate a market response. While direct charging might help estimate the total cost of some research projects, multiple and simultaneous uses of space will not be facilitated by direct charging. These activities are now frequent and in the interest of efficiency should be encouraged. Subjecting facilities costs to the peer review process may seem to be a good idea, but it is not reasonable to expect reviewers to make these decisions in the context of ranking individual proposals on their overall scientific merit. They are two fundamentally different sets of judgements. Peer review can rank applications on the basis of scientific merit. Research proposals are unique applications, proposing

different experiments, and are not directly comparable in terms of price. Ranking these applications in terms of their scientific merit can be done within a small margin of error. But this is a fundamentally different activity than assessing the cost of a facility, and it is not reasonable to expect a comprehensive review of facility costs to emerge from the review of research proposals. Simply put, one cannot compare research proposals to bids for the construction of a new building. While the latter is a defined entity that can be inspected and shown to be up to specifications, the former is a goal, fraught with unknowns and is almost never predictable. The "bid" process is simply inappropriate to this endeavor.

In addition to the problems with peer review and the potential of returning to full cost recovery, direct charging could also place a strain on the culture of science and be divisive and destructive of the relationships among students, faculty, departmental chairs and deans. Investigators could be encouraged to view themselves as tenants of the institutions within which they teach and do research, and chairs and deans could be forced to act as landlords. Thus, direct charging of facilities costs could destroy institutional loyalties and weaken the ties of investigators to the institutions within which they work. It might also encourage investigators to crowd as many students and fellows into as small a space as possible to reduce expenses. All of these consequences erode the quality, momentum, productivity and cooperation that are essential to successful research. Direct charging for facilities costs could lead to investigators bidding against each other for space. This would result in animosities and conflict with the goal of cooperative, collaborative research which was so fruitful in the past.

In addition to the negative impact on the scientific community, direct charging of facilities costs to research grants could encourage institutions that support research to maximize revenues by charging their investigators the highest possible price for these facilities. It also could encourage institutions to provide the fewest services possible, and to behave in a manner that is the antithesis of the collegial and supportive attitude exemplified by administrators at the very best research institutions. Direct charging of facilities costs has the further potential to create an accounting nightmare for scientists, institutions and departments sponsoring research.

The proposal to charge directly for space reminded several participants of the cumbersome, inefficient, and costly effort reporting requirements that were used by some institutions and finally abandoned in the past. OMB is urged to abandon this proposal which would add a new and costly regulatory burden.

Determining Allocations of Direct and F&A Costs

A major concern of the conferees in the discussions of changes in the charging of overhead for federally-sponsored research grants was the allocation of charges between the direct cost budgets and those attributed to facilities and administrative costs. There has been a growing concern among researchers that the administrations of research universities and institutions have been steadily shifting charges that were once routinely considered as part of the overhead (indirect costs) to the research budgets (direct costs) normally reserved for implementing specific research projects. This conference reviewed two areas of such concern: hazardous waste disposal and animal care costs and the related issue of Circular A-21 policy on secretarial support charges. While these do not represent all the problem areas, they are

often discussed and therefore seem to have special significance.

One general issue affects all of these topics, to wit, why is it important to distinguish these allocations if in fact a good accountant could authorize and distribute the costs of running a central facility in such a way as to present each investigator with a reasonable bill for services. Aside from administrative costs, the distribution between direct and F&A costs would then really not place any inappropriate burden on an investigator's budget.

The arguments in favor of retaining the general services to F&A; individual grant needs to direct costs concept seems to be two- fold. The first is philosophical; it emphasizes and supports the partnership of the institution and the investigator (which is as important as the partnership of the institution and the federal government.) The second argument is practical; the allocation provides an avenue of accountability for federal overseers and accountants, that were all such charges to become direct, would be eliminated from this vital role. The investigators would have no higher recourse for debated charges and, as with direct charging, this could then likely lead to an erosion in good will between institution and scientist.

Secretarial Support

The charging of secretarial support to research grants as a direct cost item remains a controversial issue, despite efforts to resolve this problem by the scientific community and Federal agencies responsible for administration and oversight of research grants. For many years, this was routinely approved for investigators with significant research programs that required this support for the preparation of proposals, reports and manuscripts and the maintenance of records and correspondence, among other services. These charges are separate from F&A costs, allocated by institutions and departments in general support of facilities provided to multiple investigators.

In a public meeting on F&A costs held on May 23, 1994, Alice M. Rivlin, then Deputy Director of the Office of Management and Budget (OMB), told the assembled group that she would consider revisions to Circular A-21 pertaining to the direct charging of secretarial and clerical staff. On July 13, 1994, OMB issued an interpretation of section F.6.b of Circular A-21 to provide guidance to research institutions regarding those circumstances under which secretarial and clerical support can be directly charged to Federally-sponsored agreements. Examples of circumstances where direct charging of clerical staff may be appropriate included large, complex programs; projects involving extensive data accumulation; projects whose principal focus is the preparation of large reports; projects that are geographically inaccessible to normal departmental services; and individual projects requiring project specific database management. Despite this statement, and a subsequent statement by NIH in the September 23, 1994 issue of the NIH Guide to Grants and Contracts, there are confirmed reports that impediments to the direct charging of secretarial support are still being experienced. Administrators and auditors remain overly cautious in their interpretations and initial review groups that advise the federal agencies and departments often recommend deletion of secretarial support from proposed budgets based on their interpretation of the guidelines rather than on need (for the successful pursuit of the work).

Conference participants felt that these two official statements were not producing the desired change in policy (thus continuing the uneven and arbitrary application of these guidelines), and that NIH and OMB officials needed to ensure that the opportunity to directly charge grants for secretarial support was available as an appropriate option to grantees. These project-specific responsibilities are clearly spelled out in the last point in the revision to Section F.6.b of Circular A-21, and provisions for this practice should not be disallowed by grant administrators or study sections if the stated conditions are met.

The consensus conference participants emphasized that the option to charge directly for secretarial support on research grants should not result in the prohibition of funding departmental secretaries from F&A at those institutions where this policy is used to provide secretarial support. Secretarial and clerical support is essential for the extended activities connected to grant funded research and in support of departmental activities. Direct charging should be allowed in the first case; F&A charging is appropriate in the second. It is not wise or reasonable to micromanage the process by prohibiting charges to F&A costs in all cases. The conference participants recommended that NIH reaffirm and clarify the legitimate use of direct charging and communicate this interpretation to the study sections which review proposals. OMB should take similar action.

Hazardous Waste Disposal Charges

The disposal of hazardous waste is a substantive concern to researchers because of the extensive federal, state and local regulations for collecting and disposing of these materials and the sensitivity to aid the growing concerns of the general populace to environmental issues. Universities and research institutions must confront these often conflicting rules, that are often designed for industrial disposal where the quantities of waste generally greatly exceed that produced by academic laboratories. In addition, this problem is compounded by the fact that hazardous waste disposal is often handled differently in different institutions. In some cases, hazardous waste disposal is considered a direct cost, while at other institutions it is charged as a F&A cost. There is also variation by type of waste product; some institutions charge radioactive waste disposal directly, but charge chemical and biological waste disposal as an F&A cost.

The consensus conference considered the various aspects of hazardous waste disposal and concluded that it is best considered a component of a facilities cost and therefore should be charged against the F&A ledger. The reasons for this conclusion are as follows:

1. It would be hard to estimate in advance the amount of hazardous waste disposal required on a project-by-project basis. The variation in federal, state and local restrictions and regulations, which can change with time and are influenced strongly by the availability of disposal sites, make it very difficult to project ahead of time, with any degree of precision, the amount of hazardous waste that will be generated by an individual research project.
2. Cost-effective hazardous waste disposal procedures are most efficiently developed at the institutional level. Individual charging of projects, that would also require a costly billing and

collection program, would make it much more difficult for institutions to determine compliance with the complex regulations.

3. It was felt that charging these costs to the F&A category would encourage the use of better disposal practices and result in a safer workplace and community environment. As with other facilities charges, it is easier for institutions to deal with these issues on a more global basis, and any benefits gained by direct charging of hazardous waste disposal for individual projects in terms of better cost accountability are offset by the losses in efficiency and safety.

Thus, the conference recommended the present classification of hazardous waste disposal as an F&A cost should be maintained and applied consistently across all research institutions receiving federal support.

Animal Care Costs

The use of animals in biomedical research remains an important, yet controversial, aspect of health research. An important component of this issue is the proper maintenance of animals and the means by which such facilities should be operated in terms of fiscal charges. Animal care facilities are expensive and their costs must be amortized over time. Moreover, the needs of these facilities change in response to researchers' needs and regulatory requirements. Finally, the rising cost of animal care, which is projected to continue for the foreseeable future, is a serious problem and one that must be constantly confronted by scientists, institutional administrators and federal grants managers.

The consensus conference addressed this issue and concluded that those charges that can be identified with a specific project should be attributed to direct charges and those that are part of general facilities support should be considered as an F&A cost. In December of 1994, the FASEB board approved a policy on the assignment of animal care charges as follows:

"In general, the basic costs of construction, routine operation, and maintenance of an animal facility, including the salaries of key personnel (e.g., chief veterinarian, chief business manager, purchasing agent, and security), should be allocated to the facilities, operations, and maintenance portion of indirect costs. The costs of purchasing, breeding, experimentation, and daily care (e.g., feeding and cage washing) should be charged directly to each investigator."

The conferees confirmed this statement and provided the following qualifications as further guiding principles:

1. The costs of maintaining animal facilities, providing heat, light, cooling, water and waste disposal, and providing administrative services to ensure the safe operation of these facilities, and compliance with appropriate regulations, should be regarded as F&A costs.
2. Salaries of personnel involved in the overall administration of an animal facility, whose activities

cannot be assigned to any individual research project, represent true F&A costs.

3. Direct charging of grants for research animal care costs should proceed via a cost recovery mechanism, and must include a mechanism for demonstrating that the costs incurred relate specifically to the research project that is charged.
4. Each institution should establish an advisory committee of investigators to review policy related to F&A costs.

The consensus conference specifically addressed Section J.44.b of Circular A-21 which requires that the cost of specialized service facilities should include both its direct costs and allocatable share of F&A costs. As a result of various interpretations of this policy, there has been a recent sharp increase in the charges for animal care to investigators at several universities. The consensus conference representatives felt this situation should be changed either by altering the wording of this section of Circular A-21 or by excluding animal care facilities from the specialized service facilities classification. Interestingly, animal care facilities were not listed in the original 1979 definition of specialized service facilities, but have been listed as an example in recent announcements, which has led to the changes in interpretation of the initial rule. Redefining animal care facilities and removing them from this category will allow the balanced interpretation of charges (direct and F&A) recommended by the consensus conference.

Recommendations

The consensus conference, composed of representatives of the nine FASEB societies, agreed on the following set of recommendations on F&A costs of research:

FASEB's strongly opposes the development and testing of a model for direct charging facilities costs (including rent for laboratory research space) to research grants.

FASEB requests that the Director of NIH clarify the policy allowing direct charging for secretarial and clerical support and ensure that the policy is clearly communicated to agency grant administrators and study groups.

FASEB requests that OMB provide clarification of its policy allowing direct charges for secretarial and clerical support and communicate it to governmental and institutional agents responsible for decisions on these matters.

FASEB requests that OMB revise Circular A-21 to indicate that hazardous waste collection and disposal should be considered a component of F&A costs.

FASEB urges OMB to change its policy regarding the cost of animal care facilities by either changing section J.44.b of Circular A-21 or by excluding animal care facilities from the

"specialized service facilities" classification.

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