FINDINGS AND RECOMMENDATIONS
OF THE
INDIRECT COST COMMITTEE

The Indirect Cost Committee was formed on April 13, 2007, to develop a policy for allocation of recovered indirect costs. After 20 months of intense work, the Chair, Dr. Henry Smith, presented the Committee’s final report to Mr. Vincent J. Samuel, the former Vice President for Administration and Finance. The report outlines the background of the activity and the procedures followed and summarizes the findings and recommendations. A slight modified version of this document was used in presenting the report to various stakeholders.

The full report was presented to UVI’s constituent groups: the Cabinet, the Finance and Budget Committee of the Board of Trustees, the full Board of Trustees, and to a joint meeting of the UVI faculty and staff. All of these bodies agreed with the process detailed in the report and with the recommendations of the committee. Without exception the Committee was committed to the task at hand and always placed the best interests of the University first.

Following is the report titled: Report from Committee to Examine Indirect Cost Recovery Issues
Report From

Committee to Examine Indirect Cost Recovery Issues

Overview

A committee was formed at the request of the University of the Virgin Islands President to review the allocation of facilities and administrative costs, also known as “indirect costs” or “overhead”, and develop policies and procedures that would utilize those funds to encourage University personnel to compete for more grant funds and to improve support for grant activities.

Facilities and administrative costs, referred to as “indirect costs” throughout this report, represent the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs. This includes costs like electricity, accounting, the office of sponsored programs, etc. Indirect cost rates are used to distribute those costs to benefiting revenue sources (Adapted from www.ed.gov). Indirect costs are those costs which are not direct. (See full definition in the text of the report.)

The committee had its first meeting on April 13, 2007 and represented a broad segment of the UVI community affected by grant projects. Persons from the following areas comprised the committee:

- Administration and Finance (Vincent Samuel, Shirley Lake-King, Peggy Smith, Moriah Jacobs)
- Faculty (Yegin Habtes, John Munro, Robert Stolz)
- Office of Sponsored Programs (Steve Goode)
- Office of the Vice Provost, Research and Public Service (Henry Smith)
- VI-EPSCoR (Meri Whitaker)

In order to make informed recommendations, the committee researched issues pertaining to indirect cost allocations. The members:

- compiled historical documents from previous committees that had investigated similar issues;
- investigated trends at UVI, including the amount of grant funds brought into the university for direct costs and the amount brought in for indirect costs;
- investigated practices employed at other institutions with respect to allocation of indirect costs;
- investigated current allocation of indirect costs funds at UVI;
- estimated the percentage of indirect costs that can be re-invested in support of the principal investigator, divisions/units, and components. This amount would serve as an incentive for university personnel pursue grant projects that provide for full indirect cost recovery and would improve support for grant activities.
The work of the Committee to Examine Indirect Cost Recovery Issues addresses the strategic goals of VISION 2012. It is expected that an indirect cost allocation that provides incentives and improves support for grant activities will foster academic excellence and diversify the University’s financial base.

Background

Historical Context

In FY2005, UVI received $8.7 million in grant awards; in FY2006, this climbed to $11.4 million, and then to $15.8 million in FY2007. During this period, indirect cost reimbursements to UVI through grants and contracts were $694,621 in FY 2005, $795,542 in FY 2006, and $1,082,541 in FY 2007.

VISION 2012 Context

VISION 2012 Strategic Goal #1 addresses the importance of fostering academic excellence and student success through innovative, effective teaching strategies and high quality academic programs. In the area of research, UVI aims to increase scholarly research and outreach activities that enhance student learning, respond to community needs, and/or generate new knowledge that also meet peer-reviewed standards. A teacher/scholar model will be established that integrates teaching, scholarship, and research to create a more learner-centered approach to the professoriate.

Strategic Goal #3 aims to enhance and diversify the University’s financial base through the development of new revenue streams and realization of cost savings. In the area of research, UVI aims to increase mission-centered grant acquisitions that support and promote research and community development, including the development of policies for the allocation of indirect costs to improve support for grant activities and incentives for grant acquisition (VISION 2012 3.D.2).

These VISION 2012 goals underlie and justify the choice of appropriate policies for allocation of indirect costs revenues.

Indirect Costs

Indirect costs (also referred to as Facilities and Administrative (F&A) Costs, or “overhead”) are those institutional costs that are incurred for common or joint objectives, and which cannot be readily and specifically identified with a particular sponsored project, instructional activity, or other institutional activity. The federal government’s policy, expressed in OMB Circular A-21, “Cost Principles for Educational Institutions”, is to reimburse grantees and contractors for the full cost of sponsored projects, including both direct and indirect costs. Indirect cost revenues represent reimbursement of “real” costs, not a fee or profit. UVI enters into rate agreements with the federal government about every four years, and the agreement specifies the allocation method to be used to
ensure that every project bears its fair share of those costs. Currently the UVI rate agreement requires that a pro rata share of indirect costs be allocated to each sponsored program based on salaries plus fringe benefits using a 60% multiplier for on-campus projects and 30% for off-campus projects.

Nonetheless, some federal programs do not reimburse indirect costs at all, or only partially cover them. Many non-federal sponsors limit or exclude reimbursement of those costs. In those cases, UVI must absorb the lost indirect costs—the rate does not go up to offset the losses.

Indirect costs are added to direct costs when funding agencies are invoiced for project costs. When those invoices are paid, the revenues received in reimbursement of indirect costs are unrestricted funds. These are used to:

- to cover the allocable share of University facilities and administrative costs associated with sponsored programs generally
- to cover infrastructure improvements and expansion for the benefit of sponsored program activities
- to cover OMB Circular A-133 audit expenses

**Practices at Other Institutions**

The committee contacted several other universities and used information available from the National Council of University Research Administrators (NCURA) to learn what practices were followed at other institutions with respect to distributions of indirect costs. A summary of these findings are presented in Appendix A. The detailed data are available upon request.

**Assumptions**

**Appropriate Use of Indirect Costs Revenues**

Indirect Cost (IDC) revenues are recovered by the University to defray facilities and administrative costs resulting from grants and contracts activities. Under the current budget system, indirect costs revenues are recovered and managed centrally by the Vice President for Administration and Finance. The revenues recovered in this manner are unrestricted funds, but since the University’s activities are expected to continue into the future, and since it can be reasonably expected that UVI operational and infrastructure support costs will increase, it is prudent to recycle these unrestricted funds to cover expenditures that will be reimbursed in the future. This practice is consistent with OMB Circular A-21, the government’s cost principles for universities, which states that money that is recovered through the indirect cost revenues should be directed back into things that qualify for reimbursement through the indirect cost mechanism.

**Minimum Level of IDC Revenues Required for the University Operating Budget**
The implementation of this IDC distribution proposal is dependent on a portion of the indirect costs revenues recovered being set aside for that purpose. This will be done subject to the achievement of the IDC revenues approved by the University Board of Trustees in the annual operating budget. For fiscal year 2009 (the first year of the program) the amount approved in the University’s operating budget by the Board of Trustees for IDC revenues is $810,000.

Additionally, the Committee determined that the following will apply:

1. For the first year of the program, a target distribution of up to 15% of recovered indirect costs will be made. Depending on the experience of the first year, distribution levels in subsequent years will be adjusted with goals being at most 20% in the second year and at most 30% in the third year.

2. Distributions of recovered indirect costs will be made only on those grants and contracts that include full indirect costs (as defined by the negotiated federal rate agreement for on-campus and off-campus projects), or the maximum amount allowed according to the sponsor's published official policy.

3. Where the University and the Principal Investigator agree on a different distribution of indirect cost revenues, the project will not be eligible for participation in this distribution program.

4. Funds will be distributed based on earned indirect cost revenues.

5. Recovered indirect costs will be distributed after the end of the quarter in which they are earned.

6. The recovered indirect costs will be reviewed on a quarterly basis. If recovered indirect costs fall below the projected amounts for any grant, the Principal Investigator will be strongly encouraged to get back on schedule.

7. Within one month after the end of every quarter, the Accounting Office will prepare a report of indirect cost revenues recovered during the quarter. A monitoring committee composed of the Controller, the Associate VP for Budget and Financial Reporting Analysis and the Director of the Office of Sponsored Programs will review the report. Based on the results of the report and other information available to the monitoring committee such as historical data, projections of near-term future indirect cost revenues on specific projects, and any other relevant data, the committee will develop a recommendation regarding the advisability of continuing to make distributions as planned. If the committee finds that the volume of indirect cost revenues is less than projected and that it would be unwise to make distributions as planned, it may recommend that the distribution program be temporarily reduced or suspended until the following quarter.

8. The proposed distribution model will be evaluated on an annual basis, as experience and data is obtained, to improve its ability to meet the objectives of VISION 2012.
9. Throughout this trial period the highest level of openness and flexibility will be maintained with the understanding that the University is attempting something that it has not tried before.
Proposed Strategy for IDC Distribution

Subject to achievement of the minimum level of IDC revenues required for the University’s operating budget ($810,000 in FY2009), the Committee proposes the following distribution of IDC revenues “to improve support for grant activities and incentives for grant acquisition”. (VISION 2012 3.D.2)

The proposed distribution method would first return a percentage of recovered indirect cost revenues to the control of the Principal Investigator (PI) on the grant. This is intended to enable the PI to cover costs (such as office supplies, furniture, administrative staff, etc.) that are not allowed to be charged as direct costs, or for other expenditures that contribute to his/her work. It could also be used to address project cost overruns or disallowances. The primary intent is to decentralize decision-making authority for a small amount of the funds to the person closest to the project in an effort to enhance the effectiveness of the grant activity. A secondary purpose is to provide an incentive to encourage faculty to seek external grant funding, preferably those that allow for recovery of indirect costs.

The proposed distribution would also provide a percentage to the Unit with administrative responsibility for the grant, to be managed by the unit director or, in the case of academic divisions, to the dean. This fund will be used to advance the interests of sponsored projects in the unit or division. It is intended to enable the unit director/division dean to cover the costs of office supplies, furniture, administrative staff, etc., for the benefit of the unit’s sponsored programs. It could be used to purchase costly shared items that no one project alone could afford. It could also be used to address project cost overruns or disallowances, or to offer start-up funds to new faculty. If a unit or division has several grants returning IDC revenues, the aggregated fund makes it possible to address larger issues. For instance, the unit director/division dean might use such funds to employ an administrative assistant; this would be more practicable than trying to coordinate small contributions from a number of PI’s funds.

The proposed distribution would also provide a percentage to a University Research Support Fund to be managed by the Provost, the Vice-Provost for Research and Public Service, and the Vice President for Administration and Finance. This fund will be used to maintain and expand the University’s research infrastructure and to support strategic initiatives related to research. It will also be used to promote new research activity and to provide cost-sharing funds on new grants. Because all eligible grants will contribute IDC revenues to this fund, the aggregated fund makes it possible to address significant infrastructural investments and strategic initiatives at the University level.

Phased Implementation of Distribution Scheme

The IDC revenues distribution scheme will be phased in over three years, to enable participants to “learn by doing” while minimizing the risk to the University’s operating
budget. In year 1, the target distribution is 85% of the IDC revenues to the University’s operating budget and 15% distributed; by year 3, the target distribution is 75% to the University’s operating budget and 25% distributed.

**Year 1 (FY 2008-2009)**

The Committee proposes a target distribution in Year 1 of:

- 85% IDC revenues to the University’s operating budget for continued support of Facilities and Administrative costs at the central administration level

- 15% IDC revenue distribution (above agreed minimum level) “to improve support for grant activities and incentives for grant acquisition” (VISION 2012 Goal 3)
  - Principal Investigator (10%)
  - Unit/division administering the project (5%)

**Year 2 (FY 2009-2010)**

The Committee proposes a target distribution in Year 2 of:

- 80% IDC revenue to the University’s operating budget

- 20% IDC revenue distribution (above agreed minimum level)
  - Principal Investigator (10%)
  - Unit/division administering the project (5%)
  - University Research Support Fund (5%)

**Year 3 (FY 2010-2011)**

The Committee proposes a target distribution in Year 3 of:

- 75% IDC revenue to the University’s operating budget

- 25% IDC revenue distribution (above agreed minimum level)
  - Principal Investigator (10%)
  - Unit/division administering the project (10%)
  - University Research Support Fund (5%)
### PROPOSED MODEL - FORECAST

<table>
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<tr>
<th>Volume of grants with IDC</th>
<th>Pre-Distrib. FY '08</th>
<th>FY '09</th>
<th>FY '10</th>
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<tr>
<td>IDC revenues</td>
<td></td>
<td></td>
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<tr>
<td>Carry-forward from prior year</td>
<td>0</td>
<td>139,546</td>
<td>158,878</td>
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<tr>
<td>Current year IDC revenue</td>
<td>676,228</td>
<td>1,192,046</td>
<td>1,366,472</td>
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<tr>
<td>IDC available for allocation</td>
<td>676,228</td>
<td>1,331,592</td>
<td>1,525,350</td>
</tr>
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<td>676,228</td>
<td>1,331,592</td>
<td>1,525,350</td>
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<tr>
<td>Negotiated distributions*</td>
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<td>-425,355</td>
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<tr>
<td>Set aside for Univ operating budget</td>
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<td>IDC remainder</td>
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<td>Current year IDC revenue</td>
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<td>1,366,472</td>
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<tr>
<td>IDC distribution on eligible grants</td>
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<td>Principal Investigators</td>
<td>0</td>
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<td>Divisions/Units</td>
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<td>12,954</td>
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<td>Investment Fund</td>
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<td>13,105</td>
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<td>Current year program</td>
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<td>IDC available for allocation</td>
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<tr>
<td>Carry-forward to next year</td>
<td>139,546</td>
<td>158,878</td>
<td>237,574</td>
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</tbody>
</table>

*Note that this forecast was originally done extending up until FY 2012-2013. What appears in the table above covers only FY 2008-2009 and FY 2009-2010 due to the high levels of uncertainty involved beyond those periods.*
APPENDIX A

Results of Survey of 76 Colleges and Universities

Snapshot: 76 Colleges and Universities, 13 with religious affiliation, 8 women's colleges, 25 public; 51 private, 22 undergrad only, 29 states represented, 31 with enrollments < 2,500, 16 with enrollments 2,501-5,000, 19 with enrollments 5,001-10,000, 10 with enrollments > 10,001

Summary of F & A Policies

20 institutions or 26% distribute 100% of F & A to the general budget.

54 institutions or 71% have a distribution policy in which funds are distributed to support research and scholarship. Of these institutions have policies that vary according to the amount of the award. 2 institutions or 4% distribute on a case-by-case basis and do not have a formal policy. Of the 54 institutions that have a broad distribution policy, 18 institutions do not distribute any recovered F & A to the general budget, 5 distribute an unspecified fixed amount or a varying amount to the general budget, 5 institutions distribute 1-25% to the general budget, 15 institutions distribute 26-50% to the general budget, 5 institutions distribute 51-75% to the general budget, and 6 institutions distribute 75-90% to the general budget.

20 institutions distribute funds to Sponsored Programs. Of the institutions that distribute funds to Sponsored Programs, 7 institutions distribute 1-25%, 8 institutions distribute 26-50% and 3 institutions distribute 51-75%. Of these institutions fully covers Sponsored Programs costs and 1 institution distributes a fixed amount to Sponsored Programs.

27 institutions distribute funds for use by the PI. Of the institutions that distribute funds to the PI, 22 distribute 1-25%, 3 distribute 26-50%, 1 distributes 100%, and 1 distributes an unspecified amount "by formula." In some cases funds are distributed as cash awards and in others they are placed in a fund to support research expenses.

27 institutions distribute funds to Deans, Provosts or a combination thereof. Of the institutions that distribute funds to Deans/Provosts, 13 distribute 0-25%, 10 distribute 26-50% and 4 distribute 51-75%.

21 institutions distribute funds to the PI's department. Of the institutions that distribute funds to the department, 16 distribute 0-25%, 3 distribute 26-50%, and 1 distributes 51-75%. 1 institution distributes an unspecified amount to the department.

1 institution distributes 100% to a student research fund

3 institutions distribute a percentage of funds to finance/business offices

4 institutions distribute a percentage of funds to the Chancellor.

1 institution distributes a percentage of funds to the VP of Administration.

1 institution distributes a percentage of funds to a "match" fund.

1 institution distributes funds to an internal grant for professional development.

1 institution distributes a percentage of funds to library services

1 institution distributes a percentage of funds to Student Affairs
PRESENTATION TO FACULTY AND STAFF ON INDIRECT COST RECOVERY ALLOCATION

Facilities and Administrative Costs (indirect costs) are those expenses of doing business that are not readily identified with a particular grant, contract, project function or activity but that are necessary for the general operation of an organization and the conduct of activities it performs.

History: At UVI the volume of grants received have increased and so too has F&A cost reimbursements

<table>
<thead>
<tr>
<th>Grants Received</th>
<th>IDC Reimbursements</th>
</tr>
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<tbody>
<tr>
<td>$8.7</td>
<td>$694,621</td>
</tr>
<tr>
<td>$11.4</td>
<td>$795,542</td>
</tr>
<tr>
<td>$15.8</td>
<td>$1,082,541</td>
</tr>
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VISION 2012 in Strategic Goal #3 provides for increasing mission-centered grant acquisitions that support and promote research and community development, including the development of policies for the allocation of indirect costs to improve support for grant activities and incentives for grant acquisition (VISION 2012 3.D.2).

A cross-campus committee first met on April 13, 2007 and set as its goal the development of an indirect cost allocation policy that provides (i) incentives, (ii) improves support for grant activities and that (iii) foster academic excellence and (iv) the diversification of the University’s financial base.

In the course of its work the committee carried out activities that include those listed on the bottom of page 1.

- compiled historical documents from previous committees that had investigated similar issues;
- investigated trends at UVI, including the amount of grant funds brought into the university for direct costs and the amount brought in for indirect costs;
- investigated practices employed at other institutions with respect to allocation of indirect costs;
- investigated current allocation of indirect costs funds at UVI;
- estimated the percentage of indirect costs that can be re-invested in support of the principal investigator, divisions/units, and components. This amount would serve as an incentive for university personnel pursue grant projects that provide for full indirect cost recovery and would improve support for grant activities.

Also, F&A policies of 76 colleges and universities were reviewed. Summary of these appear in Appendix A.
In developing the policy, the committee held inviolate the appropriate use of F&A revenues as specified by OMB Circular A-21 and also the minimum levels of F&A revenues required for the University’s operating budget. This for FY 2009 has been approved by the Board in the University’s operating budget as $810,000.

In addition the committee set in place certain guidelines that must be adhered to and these are specified on page 4.

What resulted is a strategy that provides for:

- Retention of a percentage of the IDC revenues as part of the UVI operating budget

- Provision of a percentage to the PI
  - Enhance the effectiveness of the grant activity
  - Provide an incentive to seek external grant funding

- Provision of a percentage to unit with administrative activity
  - Managed by unit director/dean
  - Development of the Unit’s sponsored programs

- Provision of a percentage to a University Research Support Fund
  - Managed by Provost, VP-RPS, VP-A&F
  - Expansion of the research infrastructure
  - Support strategic initiatives related to research

Phased introduction

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
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<tbody>
<tr>
<td>Operating budget</td>
<td>85%</td>
<td>80%</td>
<td>75%</td>
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<tr>
<td>PI</td>
<td>10</td>
<td>10</td>
<td>10</td>
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<tr>
<td>Unit/Division</td>
<td>5</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Research Fund</td>
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<td>5</td>
<td>5</td>
</tr>
</tbody>
</table>

The committee is confident that what has been developed
- provides incentives,
- improves support for grant activities
- foster academic excellence and
- fosters the diversification of the University’s financial base.

and thus fully addresses Objective 3.d.2 of VISION 2012.

H. Smith
Wed, Dec. 4, 2008