



## **Communication from the Indirect Cost Recovery Task Force (UCSF)** **David Saloner, PhD, Chair**

January 3, 2011

Elena Fuentes-Afflick, MD, MPH  
Chair, UCSF Academic Senate  
500 Parnassus Avenue, Box 0764

Re: *Indirect Cost Recovery Task Force Final Report*

Dear Chair Fuentes-Afflick,

### **Charge of the Task Force**

To facilitate the work of the Joint UCPB-UCORP Subcommittee on Indirect Cost Recovery, the UCSF Academic Senate requested that a Task Force of five senior faculty members conduct a focused review of indirect cost recovery (ICR) as it relates to the UCSF campus. This Task Force was asked to generate a brief report to be submitted to the UCPB-UCORP Subcommittee and the UCSF Academic Senate Coordinating Committee. This report needed to summarize indirect cost recovery for UCSF and the impact of the current campus allocation model on faculty at UCSF. The Task Force could also generate recommendations based on their findings.

### **Caveats**

The dollar amounts and percentages presented here are broad estimates as it is not always feasible to provide detailed relevant information because of the complexity of the data, time constraints, and mismatched definitions of specific items by different sources. The analysis is based largely on 2009 data. However, the specifics are constantly evolving, particularly at the time of this review, because of restructuring around the UCSF Operational Excellence initiative.

The methodology UCSF employs for distributing revenue has evolved over time and although some of these rules might appear archaic they are rooted in historical precedent and may have created ongoing expectations that any new arrangements should be similar to previous conditions.

### **Working Goals of the Task Force Group:**

To address the request of the Academic Senate and to provide an added level of transparency to the UCSF faculty on what the costs of supporting research at UCSF are and some indication of how ICR is distributed to meet this need.

### **Note**

A number of similar investigations have occurred over the years, most of which have expressed a level of frustration at the lack of transparency in the system and several of which have concluded without definitive findings. In particular, we note the statement by the system-wide COR report and the statement in the excellent Summary by the University Committee on Research Policy of July 10, 1997 [ <http://www.universityofcalifornia.edu/senate/reports/icroh71097.html> ]:

*The details of subsequent distribution of this overhead portion become invisible because of the merger of these federally-derived funds with state general funds. It has been suggested that a separate*

*account/fund number might be applied to this portion of the state UC allocation, so that uses of overhead would become visible, and thus make it easier to recognize the significant role that indirect cost recovery plays in the operation of the University.*

More recently, we find similar conclusions in the March 2010 “Choices Report” prepared by the Systemwide University Committee on Planning and Budget:

*The impetus for this update and summary of earlier Senate reports on ICR comes from a continuing dissatisfaction among faculty with respect to the opacity of the process by which ICR is generated and distributed, coupled with a sense that research infrastructure is not being supported effectively.*

It appears that at UCSF, a number of different investigations have taken different approaches to cover overlapping issues. This redundancy results in fatigue among those who are asked repeatedly by different constituencies for similar data. Clearer communication is needed to centralize findings from these reviews to avoid unnecessary repetition. This goal would be advanced by a standardized reporting format with increased transparency and separation of revenue by category of source (for example, federal and state).

### **Sources of Information**

- Previous reports and analyses were prepared for review by UCSF leadership. Of particular value, the 03/2010 report by Assoc. Chancellor Eric Vermillion *et al* to the Research Administration Board.
- Interviews with individuals with extensive familiarity with financial matters, service on previous such commissions, and with operation of research infrastructure: (Vermillion, Nia, Lium, Hildebrand-Zanki, Featherstone, Hawkins);
- Surveys of administrative expenses of representative Departments (from each School, various Dept sizes, wet lab, clinical, office only, ORUs) that were conducted by Senate staff for this Task Force

### **Context**

As noted, a crucial resource was the materials from a presentation to the Research Administration Board by Eric Vermillion. Those data are presented below in Tables 1 and 2. It is our understanding that these tables should be viewed as a broad guideline given that ICR can be moved between different categories depending on what other revenue streams might or might not be in place to supplement each different category.

The negotiated rates between UCSF and the Federal Government allow for returns of 26% of modified total direct costs for administrative support of on-campus organized research and an additional 28.5% for those organized research projects that use on-campus facilities (i.e. the F&A for regular federal on-campus grants is 54.5%). The Organized Research rate is distinguished from Other Sponsored Activity and Sponsored Instruction rates which the Federal Government also allow for returns but are calculated at lower levels.

Although ICR for federal grants is negotiated with the Federal government based on a report of the cost of facilities at UCSF (admin is fixed at 26% nation-wide), the subsequent distribution of Indirect Cost Funds returned to UCSF is only broadly governed by Federal regulations and thus is largely allocated by the campus administration.

Therefore, funds from other revenue sources – state and philanthropy, as permitted – can supplement research F&A costs. Use of F&A funds comes under significant pressure when those other funds dry up. The data in table 1 under Summary Points on p. 6 of this report details the major revenue streams at UCSF. From that table we note that total revenue at UCSF in 2008-09 was of the order of \$3.2B, and that

sales and services of the medical centers was approximately half that amount. Federal and private funds provided of the order of 55% of the funds that were not generated by medical center operations.

Facilities related costs that are allocated to organized research are based on estimates of the amount of space used in support of organized research and these facilities costs reflect dollars spent to operate and maintain campus space.

### **Actual Returns**

25% of Federal Indirect Costs and 21% of private grants Indirect Costs are retained at the UC Office of the President (substantially higher in previous years).

Total Indirect Costs returned to UCSF represents 21% of total direct costs. (\$157.7M/\$738.9M)

On Federal agreements: Total Indirect Costs returned to UCSF represents 29% of total direct costs. (\$120.3M/\$416.4M)

On Private agreements: Total Indirect Costs returned to UCSF represents 11.6% of total direct costs. (\$37.4M/\$322.5M).

### **Cost of pre- and post-award activities and central research administration**

The total estimated cost of pre- and post-award and central research administration in 2009 as reported by Departments was \$38M. This number comes from data gathered in a report to the Chancellor as part of the Operational Excellence effort and matches data this Task Force gathered independently.

Research administration costs have become increasingly decentralized. Central research administration includes Contracts and Grants, CHR, IACUC, etc. is supported by \$6M.

Departments spend approximately \$32M on research admin but receive approx. only \$16M from ICR – making up the deficit of \$16M from clinical revenue.

A fraction of the ICR returned to UCSF is passed on to the Deans (approx. 10%). All Deans report passing these funds on to the Department Chairs who use this to support research administration.

Frequently private grants/contracts/gifts require a large fraction, or all, indirect costs are waived. Thus the administrative and facilities costs for these funds must be supported from other sources. (Some institutions will not allow this, including, as of 2010, NCIRE – the VA research foundation.) The topic of IDC waivers was recently a discussion item by the Committee on Finance during the November 17, 2010 Regents Meeting with the focus on calling to attention the rise in and significant level of unreimbursed indirect costs each year and difficulty of supplying institutional support to fund this shortfall during the current budget environment.

Facilities costs are significantly higher in certain locations than in others. Faculty sited at those locations derive a benefit from grants generated by faculty at lower cost locations; i.e. faculty at lower cost locations subsidize those at higher cost locations.

The facilities cost of wet lab space at UCSF sites is estimated to consume a disproportionately large component of indirect cost revenue from UCSF grants when compared to the Direct Costs generated by grants for UCSF investigators based in dry labs. One view therefore could be that faculty who use wet lab space derive a benefit from grants generated by faculty who do not use wet labs. However, the Facilities portion of the ICR agreement for on-campus projects includes assumptions regarding cost of wet laboratories, so that rate should, at least in part, provide needed support for these facilities.

Chairs of some Departments that generate clinical revenue report using clinical revenue to support the administration of research in their Departments. Thus, faculty in those Departments who utilize departmental research administration derive support from faculty who generate clinical revenue.

Typically, private grants do not support F&A costs at a level proportional to the cost of supporting research at UCSF. Faculty who receive private grants where the requirement to provide F&A costs at the full level are waived derive a benefit from faculty whose grants generate higher indirect cost support and, in clinical departments, faculty who generate clinical revenue also may contribute to the support of research administration.

### **Observations**

Many investigators assume that in the designation F&A, the A (Administration) component refers to the cost of research administration (and that it consists essentially of pre- and post-award and central research admin (CHR, IACUC, etc.)). They therefore assume that the A portion represents  $26/54.5 = 47.7\%$  of Direct Costs (which in 2009 would have amounted to  $47.7\% \times \$739\text{M} = \$352\text{M}$ .) However, referring to the numbers above, we have noted that in fact, the total indirects on UCSF Direct Costs only amounts to \$157.7M. Furthermore, although 47.7% of \$157.7M would amount to \$75M, additional analysis reveals that after the amounts that are directed to the UCOP and Facilities costs are allotted, the amount remaining for "Administrative" costs is \$47M. Finally, these administrative costs are used for many functions, as tabulated at the end of this report, and, in the final analysis, UCSF only allots \$22M to support research administration (which is vastly different from the \$352M "back of the envelope" estimate above).

The facilities costs at UCSF are held to be more rigid than the costs of personnel and programs. Furthermore, facilities receive no support from clinical revenue – (but can at times receive support from state funds.) Since the ~25% retained by the UC Office of the President does not come out of the facilities expenditures, it could be viewed as more directly reducing the amount going to administrative support and represents about 45% of the total non-facilities amount.

Private agreements most often provide ICR <12% of DC and yet may impose substantial reporting and accounting requirements. Grant support from private agreements can be of key importance, particularly for young investigators who often use this type of support to establish a track record before applying for the more competitive federal funds. Although these projects are subsidized by Federal agreements, the true cost of accepting them must be viewed in terms of how much extra cost they add to an enterprise that has already paid much of its fixed costs relative to the benefit that they return in terms of supporting research of scientific and societal value. Other institutions (including the San Francisco VA research foundation, NCIRE) are increasingly refusing to administer grants that demand waiver of the regular ICR, or, at a minimum, requiring that Departments provide the differential. In waiving ICR it is critical to consider the administrative overhead required on a project-specific basis. It might be better to have Chairs make this judgment. A possible remedy would be to increase the pass-through allocation of funds to Department Chairs from grants with waived IC but require that the Chairs then pay the full administrative burden for those grants.

In considering equity issues, investigators should be reminded that while funds from their research projects are pivotal in maintaining the research enterprise at UCSF they also receive benefits that derives from the massive existing infrastructure of UC, core resources, and, in good times, state support that benefits the research and educational mission. Some investigators build their research upon the excellence of the UCSF clinical enterprise (and that of UCSF affiliates), and there are many investigators who utilize the excellence of the clinical enterprise to pursue translational research studies. The research prospects of some investigators also benefits greatly from ready access to a comprehensive and accomplished group of intramural collaborators, library services, the wide range of research seminars, and valuable access to state of the art equipment and scientific core facilities.

The campus community also derives tremendous benefit from the voluntary service contributions of faculty, most of whom, given the marked limitations on hard money support at UCSF, are supported either by extramural grants or clinical revenue. For many faculty researchers, teaching time, including clinical teaching and patient care is entirely donated. The net balance frequently presents hardships to researchers. Inadequate support for research administration adversely impacts researchers who are frequently diverted to address accounting errors and the like, and who commonly experience delays in grant submission, renewals and animal or human protection programs.

It is the impression of the Task Force members that all those asked to provide input to this project were helpful and disclosing and that there is an earnest endeavor to be transparent. There is also optimism that there is an increasing effort to be proactively transparent and accountable. Nevertheless it is possible that leadership require a certain amount of flexibility that permits them to make strategic decisions such as supporting new hires or special projects that violate strict equity considerations.

**Recommendations:**

1. Information about how ICR funds are used should be compiled routinely and should be openly available, at least within the campus community.
2. Sources and extent of support for the UCSF research infrastructure should be compiled routinely and made available to the campus community. This information should be reported for both wet laboratories, as well as translational and clinical research teams.
3. Data should be provided for all activities that derive any fraction of support from ICR indicating the fraction of support (or range over time) that is provided by ICR, and the source of other contributions to that activity
4. ICR fund support for research administration should be increased to a total of not less than 20% of the total ICR reducing the burden on Departments to subsidize those activities.
5. The campus should investigate whether it is possible to negotiate indirect rates separately for wet lab and non wet lab facilities, whether on campus or not. If adjustments to the federal F&A rate does not fully support more costly facilities (e.g. wet labs), other sources of support should be sought, including discussions with the Office of the President and private fund raising to endow facilities and not just buildings.
6. Departments should be asked to participate in subsidizing the difference in ICR returned to UCSF on private grants where full IC is waived.

Sincerely,

**Indirect Cost Recovery Task Force (UCSF)**

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Doug Bauer, MD, School of Medicine (Internal Medicine)  
Stuart Gansky, MS, DPH, School of Dentistry (Preventive & Restorative Dental Sciences)  
Ruth Greenblatt, MD, School of Pharmacy (Clinical Pharmacy)  
Christine Miaskowski, RN, PhD, FAAN, School of Nursing (Physiological Nursing)

Cc: Heather Alden, Executive Director, UCSF Academic Senate Office  
Alison Cleaver, Senior Analyst, Indirect Cost Recovery Task Force and  
UCSF Academic Senate Office

**Summary Points**

Table 1: Overall context – UCSF Campus Revenues for FY 2008-09

	\$ in millions
Federal government	\$506
Private gifts, grants, and contracts	\$341
State government	\$253
Sales and services of educational activities	\$134
Local government	\$111
Other	\$69
Student tuition and fees	\$45
Auxiliary enterprises	\$43
Sales and services of medical centers	<u>\$1,649</u>
Total	\$3,152

At UCSF Indirect Cost Recovery was apportioned approximately as follows:

UCOP (&19900 Fund Offset)	\$36M
Facilities	\$66M
Administration	<u>\$47M</u>
	\$149M

The \$47M was expended as follows:

Academic & Admin systems	10%
Pre/Post/Central - Award Administration	41%
Faculty welfare/education/new hires	9%
Specific projects support	11%
Mission Bay Operations (student health, procurement, planning, etc.)	4%
Extramural Funds Accounting, Business Contracts, Shuttle Services etc	8%
Research and Academic Affairs – Compliance, CTSA, SEP, Grad Division	9%
Special programs	8%

**Federal Only**

OAAIS/ITS Support	4.598
Research Administration	1.254
Support for Research Administration for Schools (Incl LPPI, GHS, QB3 and Proctor)	17.766
Academic Support	2.926
Faculty Life Programs	0.378
Regents Programs and Graduate Financial Aid	0.756
Instruction and Research Support	4.389
Other ICR Allocations to Schools	4.158
Mission Bay Operating costs – not facilities related	1.93
Institutional Support	3.553
Total – not Facilities	\$42M

Debt Payments – MCB, LHeights, Mission Bay	12.852
Laurel Heights, MCB & Mt Zion OMP Support	4.18
Mission Bay Utilities	3.262
Mission Bay Operations and Maintenance of Plant (OMP)	2.33
Mission Bay Operating Costs – facilities related	5.53
Capital Support (Mission Bay, Academic Support Projects)	1.89
Institutional Support	0.233
Debt Payment	2.796
Utilities Overdraft (Non-Mission Bay)	5.359
Other OMP (Non-Mission Bay)	1.864
UCSF Pre Off-the-top	8.4
Total Fed – Facilities	\$48M

Office of the President and Other Campuses 30

Total Fed – UCOP \$30M

Total Fed – ICR \$120M

## **Federal + Private**

OAAIS/ITS Support	4.598
Research Administration	1.254
Support for Research Administration for Schools (Incl LPPI, GHS, QB3 and Proctor)	17.766
Academic Support <sup>1</sup>	2.926
Faculty Life Programs	0.378
Regents Programs and Graduate Financial Aid	0.756
Mission Bay Operating costs – not facilities related	1.93
Instruction and Research Support <sup>2</sup>	4.389
Other ICR Allocations to Schools <sup>3</sup>	4.158
Institutional Support <sup>4</sup>	3.553
School support - Private	5.2
<b>Total – not Facilities</b>	<b>\$47M</b>

Debt Payments - MCB, LHeights, Mission Bay	12.852
Laurel Heights, MCB & Mt Zion OMP Support	4.18
Mission Bay Utilities	3.262
Mission Bay Operations and Maintenance of Plant (OMP)	2.33
Mission Bay Operating Costs	7.456
Capital Support (Mission Bay, Academic Support Projects)	1.89
Institutional Support	0.233
Debt Payment	2.796
Utilities Overdraft (Non-Mission Bay)	5.359
Other OMP (Non-Mission Bay)	1.864
Capital support + Mission Bay OMP - Private	17.4
UCSF Pre Off-the-top	8.4
<b>Total – Facilities</b>	<b>\$66M</b>
Office of the President and Other Campuses	30
UCOP - private	5.985
<b>Total – UCOP</b>	<b>\$36M</b>
<b>Total ICR</b>	<b>\$149</b>

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Examples of allocations in corresponding categories

<sup>1</sup> Library, new recruits

<sup>2</sup> Nursing lease space; SEP – Science and Education partnership; Central Research admin – IACUC, CHR, HIPAA; Grad division

<sup>3</sup> Special programs, e.g.: SFGH Experimental Medicine; Immune Tolerance Network lease costs

<sup>4</sup> Transportation shuttle buses; bioterrorism response