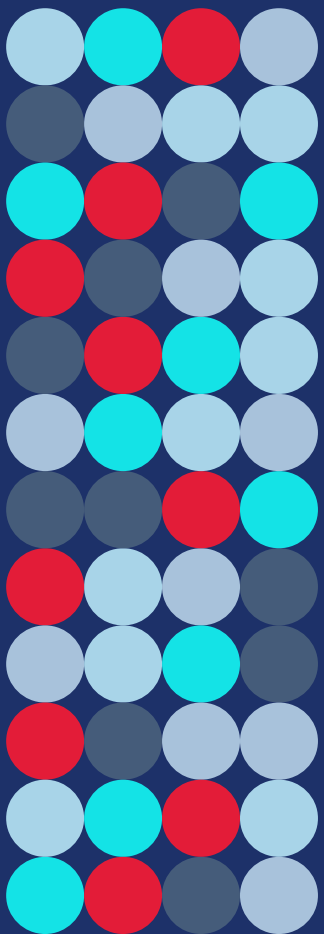
Attain Partners

INDIRECT COST RATES AND RECOVERY

Reimbursement practices followed by colleges and universities, private industry labs, and federal and national labs conducting federally funded research and development activities



Prepared by Attain Partners for AAU and COGR

January 20, 2026

Toby Smith
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Association of American Universities
1200 New York Ave, NW; Suite 500
Washington, DC 20005
-and-
Matt Owens
President
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601 13th Street, NW; 12th Floor
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Dear Mr. Smith and Mr. Owens:

Attain Partners was engaged by the Association of American Universities (AAU) and Council on Governmental Relations (COGR) to conduct a study examining current facilities and administrative costs (F&A), or indirect costs (IDC) reimbursement practices followed by colleges and universities, private industry labs, and federal and national labs receiving funding to conduct federally funded research and development activities. The following report provides the findings and results of our study.

We appreciate the opportunity to work with AAU and COGR and your colleagues on this important engagement.

Very truly yours,

ATTAIN PARTNERS

By Mark C. Davis

Executive Summary

Facilities and administrative ("F&A," sometimes also called "indirect") costs are a major cost component of all federally sponsored research projects. They represent the necessary costs required to perform research activities, and some form of reimbursement for F&A costs is provided to all organizations that perform federally sponsored research (e.g., universities, non-profit independent research institutes, national laboratories, and private for-profit contractors). For universities, their reimbursement represents, on average, 25% to 30% of the total project budget.

The federal policy on the reimbursement of these research costs is crucial to all research organizations, including universities, because these payments are essential to supporting research in the United States. Since 1940, these policies have been subject to various debates and changes in an effort to achieve the right level of reimbursement of these costs.

However, for decades both policymakers and even university faculty have expressed significant confusion about how F&A reimbursement rates work because of the complex formulas used to set them. The federal Office of Management and Budget (OMB) has established and determined the manner in which research-funding federal agencies cover F&A reimbursements for universities and many non-profit research institutions, via the "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards" (2 CFR Part 200/Uniform Guidance).

In accordance with this OMB guidance, the F&A reimbursement "rate' for universities and most non-profit organizations is not calculated as the percentage of a total federal research award but is instead a composite of different cost pools supporting research allocated across a subset of direct costs.

It is important to note that the government's approach to indirect cost accounting and reimbursement for universities and nonprofit research organizations is different than its approach for other entities conducting federally sponsored research. This fact has contributed to the resulting confusion – and that confusion, in turn, is now imperiling the funding needed for America's research institutions to continue performing groundbreaking research that improves health, saves lives, and nourishes America's innovation ecosystem.

Over the years, we have seen federal government actions designed to tighten the F&A rules and limit the reimbursement levels at universities (for example, the imposition of a 26% cap in 1991 on administrative costs for universities, as included in section C.8 of Appendix III to Part 200). These have often come in response to highly publicized examples of specific charges for which some universities were reimbursed under the indirect cost rules at the time. In many cases, policymakers' fundamental misunderstandings of how F&A rates actually work – and particularly how they differ between universities, nonprofits, and other research-performing entities – have contributed to these attempts to cut university F&A rates. This, of course, results in less research funding overall.

These attempts have continued; the latest developments in 2025 are the actions from several agencies (i.e., National Institutes of Health [NIH], Department of Education [DOE], National Science Foundation [NSF] and Department of Defense [DOD]) to cap the indirect cost rate at 15% for all research awards. These actions would result in a severe loss of cost reimbursement to colleges and universities and research institutes and cripple U.S. research endeavors.

STUDY OBJECTIVES

Considering current developments in federal reimbursement policies, there is growing interest among the associations that support academic research (including the Association of American Universities [AAU] and Council on Governmental Relations [COGR]) to better understand and explain the current F&A cost reimbursement system. This extends to better understanding the current F&A regime's rationale, safeguards in the system to protect against fraud and abuse, and an apples-to-apples comparison of the actual effective F&A rates for research conducted by for-profit industry organizations versus that conducted by institutions of higher education (IHE). As a result, AAU and COGR have requested Attain Partners to prepare a paper that answers the following questions.

1. What are the differences in indirect cost rates and recovery among the research performing entities?
2. How does the federal reimbursement policy for universities compare with that for private industry?
3. Are there differences in reimbursement policies between private and public universities?

SUMMARY FINDINGS AND CONCLUSIONS

The study results provide a comprehensive analysis of indirect cost rates and recovery mechanisms across three major research-performing entities: colleges and universities, federal/national laboratories, and private industry laboratories (private government contractors performing research). The study responds to recent federal proposals to cap indirect cost rates at 15%, which could significantly impair research institutions' financial sustainability. The study references information based on previously published papers on indirect costs and rates, National Science Foundation (NSF) data and COGR data. It is also based on the knowledge and experience of the Attain Partners authors, including the decades of work experiences with research universities and academic medical centers and independent research institutions, and executive level roles in federal agencies like the Office of Management and Budget and the Department of Health and Human Services' Cost Allocation Servies.

KEY FINDINGS

1 Even under the federal government's longstanding F&A reimbursement scheme, universities already subsidize a substantial portion of the indirect costs required to conduct federally funded research. These costs include construction and debt service, capital equipment purchases, utilities, federal regulatory compliance, and general and departmental administrative support—all often paid upfront by universities and only partially reimbursed through negotiated F&A rates.

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2 On average, the effective reimbursement rate for universities' actual indirect costs is likely lower than that of private industry. This is due to federal caps (e.g., 26% limitation on administrative costs), limitations on salary reimbursements, cost sharing, and other downward pressures on rates. These constraints lead to significant under-recovery of universities' actual costs. In FY 2023, universities reported a $6.8 billion under-recovery in indirect costs, which does not include administrative costs in excess of the 26% cap.

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3 Federal and national labs (Government-Owned, Government-Operated [GOGO] and Government-Owned, Contractor-Operated [GOCO]) are primarily funded upfront by the federal government. GOCO labs, often operated by universities or other contractors, receive more comprehensive reimbursement for indirect costs than universities conducting similar research using their own facilities.

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4 Private industry laboratories operate with uncapped indirect cost rates and fewer restrictions than universities conducting research on behalf of the American people. These labs are allowed to recover all related costs and aim for profitability, using flexible cost accounting practices governed by the Federal Acquisition Regulations (FAR) and Cost Accounting Standards (CAS). The indirect cost structures vary widely and are not directly comparable to university indirect cost rates.

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5 Differences between public and private universities' F&A rates are not due to differing rules or negotiation processes. Both follow the OMB Uniform Guidance and undergo annual financial and compliance audits. Variations stem from factors such as:

- Geographic cost differences
- Type and intensity of research (e.g., biomedical vs. behavioral science)
- University's choice to dedicate specialized resources to the development of indirect cost proposals.

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1 INTRODUCTION

This study of indirect cost rates and actual reimbursement are presented in two separate sections to discuss the following questions.

- What are the differences in indirect cost rates and recovery among different categories of research-performing entities? How does the federal reimbursement policy for universities compare with the policy for government contracting with industry?
- Are there differences in reimbursement policies between private and public universities?

As detailed in the two following sections, universities face systemic under-recovery due to federal caps[1] (e.g., 26% on administrative costs) and complex reimbursement processes. Universities typically pay the indirect costs upfront and recover only a portion of the federal sponsors' share of costs, effectively subsidizing federally funded research. Universities only recover the costs through reimbursement claimed through the charges of indirect costs to the federal projects. An example is costs related to buildings and equipment that are incurred in the current period by universities and only claimed through depreciation expenses reflected in future indirect cost rates. In contrast, these costs may be funded as direct program costs for the federal labs (i.e., GOCO and GOGO facilities).

OUR STUDY FINDS THAT:

1. **Universities** subsidize a substantial portion of indirect costs, including costs for buildings, equipment, utilities, and compliance. In FY 2023, universities reported a $6.8 billion under-recovery of indirect costs, which does not include administrative costs in excess of the 26% cap.
2. **Federal/National Labs** (GOGO and GOCO) receive more comprehensive IDC reimbursement, often receiving funding as direct costs upfront by the government, for the operations of the Labs.
3. **Private Industry Contractors** operate with uncapped indirect cost rates, fewer restrictions and more flexibility, recovering all costs and aiming for profitability. Because of additional flexibility afforded to private industry contractors, indirect rates vary broadly due to differences in company size, industry, structure, geography, and type of costs incurred. Thus, indirect cost rates are not comparable across firms. Previous analysis also found university rates were not comparable with private industry rates, but due to the caps and restrictions on universities, universities received less reimbursement for the same types of indirect costs. While these rates are difficult to compare and Attain did not attempt to do so because of the different structures for recovering indirect costs, there is no indication that these previous findings have changed.
4. **Public vs. Private Universities:** Differences in indirect cost rates stem from factors like geographic cost variations, types of research (e.g., biomedical versus social science research), and the level of effort and resources dedicated to the development of indirect cost proposals. The differences in indirect cost rates are not from differing costing policies or the rate negotiation processes used by the public versus private universities.

1 Federal Agency and Program Specific Limitations on Indirect Cost Rates/Reimbursement (December 2025)

BACKGROUND

This section describes the indirect cost process, the reform of OMB Circular A-21 (now Uniform Guidance Subpart E) and the summary/findings of two past reports on indirect costs.

THE INDIRECT COST PROCESS

Grants reimburse research institutions for the cost of conducting research in one of two different but equally important ways. First, costs attributable to a specific research project, such as project-specific research salaries or supplies, are reimbursed as "direct costs." Second, "indirect costs" that support the institution's research mission, but that are not specific to a single research project, are allocated across all the institution's activities including research projects that they support. These allocated costs include (1) the facilities-maintenance costs associated with shared laboratory space, electricity costs, campus security, technology management and security, the purchase price of shared laboratory equipment, the expense of a collectively used hazardous waste disposal facility; and (2) the cost of shared administrative services associated with financial management, award billing and reporting, departmental administration, research administration, legal counsel, and costs associated with compliance with federal regulations (such as those pertaining to environmental health and safety, research security, and human subject protection).

The federal government has reimbursed these "indirect" costs through an institution-specific negotiated Facilities & Administrative (F&A) or indirect cost (IDC) rate. The Uniform Guidance (UG), 2 CFR Part 200, sets forth a detailed set of rules about how these institution-specific F&A cost rates must be developed and negotiated, and what costs can and cannot include.

The process of developing and negotiating an institution-specific F&A rate with the federal government is long, involved, and rigorous, but always begins with concrete evidence of an institution's actual costs. This evidence-based negotiation begins with the institution submitting an indirect cost proposal that includes financial statements audited by a certified public accountant that provide historical details on the costs for which the institution is allowed to seek reimbursement under the UG. The proposal follows the strict UG guidelines for the types of costs that can be included in a pool (such as operations and maintenance) and for the allocation of these costs to benefiting activities (such as research or instruction). A review and negotiation of a major University's indirect cost proposal could take months, including several rounds of requests for additional documentation and an on-site visit to review the space allocation statistics and the building use allowance claims.

Only a subset of costs incurred by a research institution are reimbursable as indirect costs. Most generally, the UG provides that the cost must be one that is necessary and relates directly to the institution's specific research mission. For example, a university's expenditure on fundraising, athletic facilities, alumni activities, campus-wide diversity, equity and inclusion programs, or even classroom buildings, are not includable in the university's F&A rate pools and may be included in the distribution base lowering the F&A rate even further. This is because federal regulations, primarily the Uniform Guidance, dictate that F&A costs must be related to and support a university's federally funded research and other sponsored projects. This rule ensures that all costs included in the institution-specific negotiated F&A rate are costs that are necessary for the institution to carry out the funded research projects and that all other institutional activities are allocated their share of costs.

To help control costs at universities, for example, the UG applies three different caps to the amounts that may be allocated to these various categories of expenses. First, an overall cap of 26% of modified total direct costs (or MTDC)[2] is placed on the administrative component of the rate (since 1991), which includes costs related to general administration, sponsored project administration and department administration. Second, an additional cap of 3.6% of MTDC is placed on the departmental administration for the salaries and fringe benefits attributable to the administrative work (including bid and proposal preparation) of faculty (including department heads) and other professional personnel conducting research and/or instruction. Third, the utility cost adjustment for research is capped at 1.3% of MTDC for the recovery of utility costs used by research activities.

2 Modified Total Direct Costs (or MTDC) is defined in the UG as means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $50,000 of each subaward (regardless of the period of performance of the subawards under the award). It excludes some large items such as equipment, capital expenditures, participant support costs. 2 CFR Part 200.1 Definitions.

OMB Circular A-21 Reform in the 1990s

OMB Circular A-21 – "Cost Principles for Educational Institutions" was created in 1979 to provide guidance on reimbursable costs (direct and indirect) against federal awards. The document remained stable during 1980s. However, the 1990s were a period of significant revision to OMB Circular A-21. This was primarily driven by congressional investigations into alleged mischarging of indirect costs by universities on federal research grants. These investigations were prompted by a public controversy over the indirect costs universities were charging the federal government for research. OMB Circular A-21 was rolled into the 2CFR Part 200 Uniform Guidance in 2013, and effective in 2014. The revisions made to address perceived issues included the following:

1991

Made specific costs unallowable for reimbursement; implemented a cap of 26% of modified total direct cost (MTDC) on the administrative portion of university indirect cost rates; and mandated that a certification accompany each rate proposal attesting to its accuracy and intent as well as acknowledging the penalties for misrepresentation.

1993

Reduced the seven previous indirect cost "pools" into two broad categories: facilities and administrative (F&A) costs to allow the federal government a quick assessment of the two groups of costs charged to federal awards. The definition of Organized Research was revised to include University Research for allocation of indirect costs across a larger base, thereby decreasing rates.

1996

Added a requirement for IHEs to submit a Disclosure Statement (DS-2) outlining their cost accounting practices; elimination of the use of special cost studies for allocating utility costs; and requirement for the use of the negotiated F&A cost rates in effect at the time of the initial award for the life of the sponsored agreement.

Accompanying the reform of OMB Circular A-21 in the 1990s were two prominent reports on indirect costs (or facilities and administrative costs) reimbursement released by Arthur Andersen and RAND. The Andersen report, released in 1996, compared indirect costs across universities, federal laboratories, and industry, while the RAND report in 2000 analyzed university indirect costs. The White House Office of Science and Technology Policy (OSTP) referenced the RAND report in its report to Congress about indirect costs and included its own recommendations to the indirect cost infrastructures (https://clintonwhitehouse4.archives.gov/WH/EOP/OSTP/html/analysis_univ.html).

The 1996 Arthur Andersen Report

The *Arthur Andersen Study of Indirect Costs Across Sectors* compared the actual indirect costs of research at seven universities, 13 federal laboratories, and 13 industrial firms to analyze how university research costs compared to those of other enterprises.

- The report found that the division between direct and indirect costs was "strikingly similar" across all three sectors, despite their different organizational structures.
- The average indirect costs as a percentage of total research costs were 31% for universities, 33% for federal laboratories, and 36% for for-profit firms.
- The study concluded that a higher indirect cost rate does not necessarily mean an organization is inefficient and that comparing rates among universities can be misleading because rates vary based on factors like facility costs and university contributions to research.

The 2000 RAND Report

Commissioned by the White House Office of Science and Technology Policy (OSTP) after Congress requested an analysis of facilities and administration (F&A) costs, the RAND report, *Paying for University Research Facilities and Administration*, sought to provide objective information on university indirect costs.

- It was designed to help inform policy debates and assess concerns that the federal government was over-reimbursing universities for indirect costs.
- The RAND study found that for NIH research funding, including awards subject to NIH specific indirect cost caps, such as 8% of MTDC for research training, the percentage of reimbursed cost that was indirect was closer to 29%. The report also noted that some federal agencies, such as the United States Department of Agriculture (USDA), have statutory caps that limit the amounts that they pay for indirect costs, regardless of the negotiated rates.
- According to RAND's analysis, about three-quarters of all federal outlays to universities support the direct costs of conducting research, such as the materials and labor used to perform each project. The other one-quarter covers F&A costs.
- In contrast to the prevailing concerns about overpayment, the report found that university indirect cost rates had remained constant for more than a decade and reimbursements as a percentage of total cost reimbursement were lower than those at federal or private labs.
- The study noted that a substantial portion of universities' F&A costs were due to federal, state, and local health, safety, and other regulations.

POLICY IMPACT

These reports were influential in the ongoing policy discussions about the equitable reimbursement of universities for performing federally sponsored research. The findings of both reports were used to challenge the perception that universities were overcharging the government for indirect purposes and to demonstrate that the federal government was not covering the full costs of research. The reports provided data-driven analysis to support the argument that indirect costs are a real and necessary expense of conducting research at universities, similar to other research performers.

THE UNIFORM GUIDANCE – TITLE 2, 2 CFR PART 200

In 2013, OMB issued the Uniform Guidance (Title 2, 2 CFR Part 200), which combined all eight previous OMB Circulars related to grant guidance for administrative, cost and audit requirements in one single document – the Uniform Guidance – applicable to all types of grantees (i.e., institutes of higher education, state and local governments, Indian tribes and nonprofit organizations). The former OMB Circular A-21 principles now reside in the UG's Subpart E-Cost Principles and Appendix III-Indirect (F&A) Costs Identification and Assignment and Rate Determination for Institutions of Higher Education (IHEs).

2 INDIRECT COST RATES & RECOVERY – DIFFERENCES BY ENTITY

The indirect cost models and types of shared institutional costs necessary to conduct research and charged as indirect costs have similarities between ***universities***, ***federal and national laboratories*** and ***private industry***; however, there are also **significant differences** in methodologies and cost recovery between these entities. For comparison, the NSF table of federal research and development obligations by types of performers (shown at end of this section), developed by NSF's National Center for Science and Engineering Statistics, shows that "Higher Education" received $44.9 Billion (or 23%) of the total $195.6 Billion in total federal obligations in fiscal year 2024 compared to federally funded intramural facilities/ laboratories and FFRDCs which received $62.3 Billion (28.8% of total federal F&D) and private which received $75.3 Billion (38.5% of total federal R&D). Universities subsidize a significant portion of the indirect costs necessary to conduct lab research for federal research awards. The negotiated indirect cost rates for universities have limitations not applicable to private industry indirect cost rates. Moreover, the indirect cost reimbursement mechanism for universities results in: 1) under-recovery by universities for the documented costs, and likely 2) significantly lower costs for the federal government than when the federal government owns the facilities either through government-owned or government-operated (GOGO) laboratories or government-owned, contractor-operated (GOCO) labs.

University research has been a collaboration between the university and the federal government in which both parties share in the indirect costs. Universities have traditionally paid indirect costs up-front by constructing or renovating buildings used in carrying out the scope of work for federal awards and by purchasing equipment to be used in their research mission activities. Universities also pay up-front for the related operating and management (O&M) expenses, including utilities, security, computing, compliance with federal regulations, and other allowable costs categorized as indirect costs. Additional university personnel are necessary to administer federal awards as the federal compliance requirements for universities are complex. These expenses are subject to limitations such as the 26% overall cap on the administrative rate component (which applies only to research conducted by institutions of higher education, or IHEs, and no other research performers including industry) and the salary rate limit on NIH awards. All these costs are paid upfront by the universities, and they only recover a portion of these indirect costs due to current reimbursement restrictions.

In industry contracting, indirect costs are collected in Overhead and G&A cost pools which are subsequently allocated to other indirect pools or contracts using rates derived from allocation bases established by the contractor reflecting an equitable causal/beneficial relationship between the pool and base.

Cost accounting rules, primarily FAR and CAS, provide guidelines on how these costs should be consistently classified, accumulated, and equitably distributed. However, Industry maintains flexibility in defining how and when costs are classified as direct or indirect, how costs are grouped in certain indirect pools, the number of pools to establish, and the allocation base to use, provided these comply with applicable guidelines. Because of this flexibility, indirect rates vary broadly due to differences in company size, industry, structure, geography, and type of costs incurred. Although benchmarking surveys such as Deltek's Clarity offer industry-wide data and useful insights, indirect rates are not comparable across private industry because of the numerous variables in indirect cost allocation structures. For more see Section 2.4 COST ALLOCATION IN GOVERNMENT FUNDED RESEARCH.

National Center for Science and Engineering Statistics – NSF 25-328		
Federal Obligations for Research And Experimental Development		
By Agency and Performer FY 2024 (Dollars In Millions)		
Performer Type	**Amount FY 2024**	**Percentage**
Intramural		
Federal Agencies	**$45,549**	**23.30%**
FFRDCs	**$16,709**	**8.50%**
Extramural		
Business	**$75,330**	**38.50%**
Higher Education	**$44,929**	**23.00%**
NonProfit Organizations	**$11,346**	**5.80%**
State and Local Governments	**$487**	**0.20%**
Non-US Performers	**$1,304**	**0.70%**
TOTAL	**$195,656**	**100.00%**

Source: Table 2 - Summary of federal obligations and outlays for research, experimental development, and R&D plant, by type of R&D, performer, and field of R&D: FYs 2022–24
Survey of Federal Funds for Research and Development 2023-2024 | NSF - National Science Foundation

2.1 UNIVERSITY RESEARCH

University research is conducted in university-owned buildings, with a mix of university and federal government-funded personnel, equipment, lab supplies, and other essential research costs. With rare exceptions (e.g., a small institution with cash flow concerns might choose the advance payment method), all costs are funded by the university prior to the request for reimbursement, with indirect costs such as buildings and fixed equipment often funded years in advance. University-owned buildings are constructed or renovated, most often without federal financial assistance and only through university funds or university financing. The costs to operate these labs, including maintenance and utility costs, are funded by the university. The university also provides administrative support for the federal awards taking place in university research labs. The federal government's share of these costs is reimbursed to the extent allowable and allocable through the negotiation and application of an indirect cost rate.

Indirect costs are reimbursed in accordance with the negotiated indirect cost rate determined by the federal government. The rate is calculated based on documented and reviewed/audited prior year costs and may be applied to multiple years subject to government approval.

The development of an indirect cost rate for a university with more than $10 million of annual federal research funding (known as a long-form university) can be complex. Institutions below this threshold can develop a simplified proposal (known as a short-form university), which is significantly less complex. This complexity stems from detailed federal regulations for long-form universities intended to ensure accurate identification of indirect costs for federally funded research and to prevent the federal government from paying for university assets and operations that do not benefit federal research awards or for more than its allocable share. This complexity and the specific limits – such as the 26% cap on the administrative portion of indirect cost rates – result in universities subsidizing federal research.

Indirect rate development takes into consideration all users of university labs. Not all researchers in a university lab are funded by a federal award; however, they do contribute to the same research mission as the federal research awards. The university funds an allocation of space costs for research not funded by federal awards, including unpaid volunteers. For example, unpaid graduate students contributing to the research mission for learning purposes may occupy space in the lab. In effect, the space costs allocated to research and included in the indirect cost rate are diluted because university research serves a dual purpose—both instruction and research—thereby reducing the overall amount universities can be reimbursed by the federal government for space. The **space survey** conducted at a university in developing its indirect cost rate (the "F" in facilities and administrative costs) considers all these situations. As such, universities are not allowed to simply determine the predominant use of a research lab area but are required to perform an allocation that ensures all occupants – funded and unfunded – of a research lab receive an allocation of indirect costs.

Federal national labs and private industry labs do not have these dual research and education functions and thus can, in effect, allocate the entire space costs to the research function. This, in turn, allows for more complete indirect cost reimbursement for the federal national labs and private industry than universities.

The **depreciation of university-funded assets used for research** are included in the indirect cost rate; however, straight-line depreciation is the default method for, and most often used by, universities. Any depreciation of federally funded equipment and construction and university cost shared equipment is excluded from the indirect cost pools (numerator of the rate). The university can never recover more than the cost of the asset and the allocation of costs to all users means the university rarely recovers the full cost of the assets that are used for federal awards. The reason for this under-recovery of asset depreciation is because the allocation of these costs is based on the usage of space which, as mentioned above, includes allocation to non-organized research activities such as instruction and training.

Utility costs and other operation and maintenance (O&M) costs are included in the indirect cost rates based on expenditures in the year prior to the calculation of the rates. Often it takes until the following year for the rates to be negotiated and implemented, and those rates are then in effect for multiple years. In an environment where utility costs are rising, the indirect cost rate regularly underestimates the current cost of utilities. As a result, the federal government reimbursement to universities is lower than its allocable share of the costs, with the universities having to subsidize the difference.

Additional information about the rigorous university indirect cost rate setting process is included in section 3.2.

Since 1991, **administrative costs** have been capped at 26% in the indirect cost rates for long-form universities but not for other non-profit organizations or private sector for-profit government contractors. For more than 95% of the long-form universities, the 26% cap is **below** the university's actual administrative rate – in some cases by more than 10 percentage points of the indirect cost rate (i.e., an actual administrative rate of 36% or more). The non-reimbursable costs above the 26% cap are most notable in the Department Administrative cost pool, where research administrators spend tremendous effort to meet federal compliance obligations. In addition, universities are subject to a Department of Health and Human Services (HHS) limitation on salaries and wages that may not exceed the federal executive Level II salary limitation. Private industry has a similar salary limitation for administrative executives, but at much higher rates.

The 26% federal cap on administrative costs disproportionately impacts emerging research institutions compared to larger, higher-volume research universities. The latter institutions benefit from economies of scale, which allow them to spread fixed administrative costs across a larger research enterprise. COGR reported the information provided in the table below based on the responses of university participants in it 2023 F&A Survey. It is likely that universities with a lower research volume than a COGR member reporting $100 million or less on the 2023 NSF Higher Education Research and Development (HERD) survey would be even more significantly impacted by the 26% administrative rate cap.

Average Administrative Component for COGR Member Universities Responding to 2023 F&A Cost Reimbursement Rate Survey

$100m or less on HERD			
Region	*Average Uncapped*	*#*	*Over Cap*
Midwest	42.03	6	
Northeast	40.54	10	
Southeast	37.83	6	
Southwest	37.58	5	
West	39.39	8	
Subgroup avg/total	**39.64**	**35**	**13.64**

$200m – $400m on HERD			
Region	*Average Uncapped*	*#*	*Over Cap*
Midwest	31.35	6	
Northeast	34.53	7	
Southeast	32.74	6	
Southwest		0	
West	31.90	6	
Subgroup avg/total	***32.70***	***25***	***6.70***

$100m – $200m on HERD			
Region	*Average Uncapped*	*#*	*Over Cap*
Midwest	30.45	5	
Northeast	40.43	9	
Southeast	38.28	8	
Southwest		0	
West	29.59	3	
Subgroup avg/total	**36.45**	**25**	**10.45**

$400m or more on HERD			
Region	*Average Uncapped*	*#*	*Over Cap*
Midwest	29.46	9	
Northeast	32.59	10	
Southeast	31.75	5	
Southwest	37.85	2	
West	32.61	5	
Subgroup avg/total	**32.05**	**31**	**6.05**

Average for all Universities in COGR Survey = 35.42
More than 9 percentage points over the 26% Cap

Source: COGR 2023 F&A Survey Capstone: Cost Reimbursement Rates, Actual Reimbursement, and Growing Regulatory Burden, Appendix 3
https://www.cogr.edu/sites/default/files/Copy%20of%20Admin%20Cap%20Impact%20by%20Size%20Region.pdf

In summary, universities subsidize a significant portion of the indirect costs necessary to conduct research for federal research awards. The negotiated indirect cost rates for universities have limitations in place that are not applicable to other research performers. Universities have traditionally paid indirect costs up front by constructing or renovating buildings used in carrying out the scope of work for federal awards and by purchasing equipment to be used in this mission. Additional university personnel are required to administer federal awards, and reimbursement of these expenses is subject to limitations. Universities pay for the operation of these labs, related O&M expenses, and utility costs and only get back a portion of the federal share of these costs in the indirect cost recoveries. University research has been a collaboration between the university and the federal government in which both parties share in the indirect costs, and universities are significantly subsidizing allowable indirect costs due to the complexity of the indirect-cost-rate-setting process, the 26% cap on the administrative portion of indirect cost rates, and salary and other program specific caps. This subsidy or under-recovery is especially stark when compared to industry and national labs that perform research on behalf of the federal government.

2.2 PRIVATE INDUSTRY CONTRACTING

While private industry laboratories incur similar costs to university laboratories, there are significant differences in how private industry accounts for and categorizes these costs as direct or indirect; industrial contactors also seek to recover all these costs, including indirect costs, while also operating at a profit.

For contractors other than educational institutions and nonprofit organizations, the cognizant federal agency normally will be the agency with the largest dollar amount of negotiated contracts with the for-profit entity, including options. The cost principles for private industry are set forth in the FAR (48 CFR Subpart 31.2) and are used to determine allowable costs under grants and contracts to for-profit organizations.

The indirect cost rates for private industry laboratories have fewer limitations imposed than the rates negotiated by universities with the federal government. Not having limitations on the administrative rate component and the higher allowable executive salary are reasons for a higher reimbursement of indirect costs to private industry than universities. The costs for industry lab space use are charged fully, through indirect cost rates and other cost-allocation mechanisms. Accelerated depreciation methods are allowable, whereas straight-line depreciation is the default method for university research.

2.3 FEDERAL AND NATIONAL LABS

GOCO laboratories are owned and equipped by the federal government but operated under contract by for-profit companies, nonprofit companies, and universities, either on their own or in consortia, and their personnel are not considered federal employees.

Three federal agencies (the Department of Defense [DOD], the Department of Energy [DOE], and the Department of Health and Human Services [HHS]) accounted for more than 80% of the total federal lab expenditures over the last three years.

GOCO laboratories funding differs from GOGO laboratories. GOCO laboratories do not have all costs funded by the federal government as the costs are accrued. Many of these GOCO laboratories are managed and operated by universities or other not-for-profit organizations under government contracts. The university and/or not-for-profit organizations may fund the construction of some of the facilities and often helps fund the renovation of the laboratory facilities. In addition, the university/not-for-profit pays the O&M expenses (including the utility bills), purchases some of the equipment used in the labs, and uses university personnel in the administration needed to operate the labs and administer awards (including accounting and payroll). Some of these indirect costs of operating the GOCO laboratories are direct charged to federal awards and those that are not recovered through the indirect cost rates.

These laboratories primarily exist to address national priorities extending beyond the scope and capabilities of individual universities or private industry. Therefore, these laboratories possess specialized equipment and world-class research facilities which are very expensive to operate but provide unique capabilities and expertise not readily available elsewhere. The cost to maintain these unique capabilities, both for personnel and infrastructure, also contributes to the high cost. For example, in fiscal year 2022 alone the federal government funded more than $1.5 billion to accelerate ongoing facility upgrades for DOE national laboratories, with $490.9 million provided alone to Oak Ridge National Laboratory in Tennessee, as cited on the DOE website.

Since most of the buildings and equipment for GOCO laboratories are funded up-front by the federal government and not included in the depreciation, the remaining depreciation on the university-funded assets, and reimbursed through indirect cost rates, is often significantly lower than the depreciation on university funded buildings and equipment included in typical university indirect cost rates. The DOE National Laboratories are owned by the government even if they are located on land owned by a university. In such cases, the federal government pays a lease to the university for land's use. The federal government also makes advance payments to the university to pay expenses for the facilities, such as utility costs. This differs significantly from university research, where indirect costs are funded based on rates negotiated using prior-year expenses and reimbursed only as direct research costs are incurred and reimbursed.

In summary, the GOCOs, and other federal research facilities, are fully funded by the federal government, including the cost of using any of the contractor's assets or personnel. Most costs are funded upfront and in advance and other costs are recovered through an indirect cost.

The listing of the 17 National Laboratories (GOGO and GOCO) is included in Appendix A.

2.4 COST ALLOCATION IN GOVERNMENT FUNDED RESEARCH

For cost accounting purposes, a cost is accounted for as either a direct or indirect cost. Direct costs are incurred specifically for a single contract or final cost objective. Indirect costs are not directly identified with a single final cost objective relating to a specific contract but instead identified with two or more final cost objectives (or contracts).

A review of indirect cost recovery in Industry reflects differences from IHEs as permitted by regulatory guidance. As discussed earlier in this section, recovery of indirect costs in Industry is governed by cost accounting rules prescribed in the FAR and related agency supplements (e.g., Defense FAR Supplement), CFR Title 48 Chapter 99 (Cost Accounting Standards (CAS)) and contract terms. However, industry maintains flexibility to establish specific cost accounting practices reflecting the unique attributes and operations of their individual businesses if such cost accounting practices are consistently followed and compliant with the applicable cost accounting principles, standards, and contract terms. This means one contractor may account for and allocate similar costs differently than another contractor.

The FAR and CAS require indirect costs to be allocated equitably across all parts of a contractor's business. Accordingly, in addition to the industry contractor's federal business contracts, the contractor's commercial or other non-U.S. government business must absorb an equitable share of indirect costs when applicable and consistent with the organizations cost accounting practices. IHEs are required to follow the same principles as industry contractors for identification and allocation of costs in accordance with allowability and allocability principles contained in the Uniform Guidance, including allocating costs across all benefiting activities.

For industry, indirect costs are typically classified and allocated through overhead and general and administrative (G&A) rates. Costs classified as overhead are incurred for, and benefit multiple, cost objectives (e.g., U.S. government contracts and other commercial contracts). A business unit or segment may have a single overhead or multiple overhead rates, and each overhead rate is typically allocated only to final cost objectives. Costs classified as G&A are indirect costs necessary for the overall operation of the business, although a direct relationship to any cost objective cannot be shown.

In addition to overhead and G&A costs, Industry also accumulates costs in service centers and other expense pools. Service centers are departments or functional units which perform specific technical or administrative services primarily for the benefit of other units within a reporting unit. Expense pools accumulate costs that are allocated primarily to other units within a reporting unit or to cost objectives. Costs incurred by service centers or expense pools can be charged or allocated: i) partially to specific final cost objectives as direct costs and partially to other indirect cost pools for subsequent reallocation to several final cost objectives, or ii) only to several other indirect cost pools for subsequent reallocation to several final cost objectives.

Costs associated with overhead, G&A, service centers and expense pools are accumulated into separate pools and allocated to intermediate and final cost objectives using bases reflecting a causal and beneficial relationship to each pool.

In comparison, a university service center is a department that provides specialized goods and services to the university community and other users, charging them for the services on a cost-recovery basis. These centers must charge users the direct cost of the goods and services to recover their expenses, aiming to break even overtime, with any surplus rolled forward to reduce future charges. Examples include animal research facilities, machine shops, and specialized equipment facilities. In contrast, the reimbursement of facilities and administrative costs refers to the recovery of shared institutional expenses through application of the institution's federally approved indirect cost rate. These are institutional expenses that cannot be directly linked to a single grant, such as general administrative support, utilities, and building maintenance.

Indirect Rates are not Comparable.

Indirect rates are not standardized across industry and will vary between industry contractors.

Typical or Standard Indirect Rates

Given the regulatory principles and standards addressing indirect costs and related pools and allocation bases, no assumption can be made that there is a "typical" or "standard" indirect rate structure used by Industry for each of the previously described indirect cost categories. As part of annual benchmarking surveys of government contractors, common metrics on indirect rates are addressed that provide some insight into indirect rates.

Factors like the contractor's size and business structure, revenue, employee count, employee demographics, industry and products/services and supporting functions, are key variables in determining the structure and number of indirect rates. In addition, while indirect cost pools may be similar, the bases across which they are allocated can differ significantly among contractors based on the differences in the objective of the pools and functions they are supporting. Finally, industry can utilize separate or multiple business units and segments that role up to corporate home offices to develop unique cost accounting practices reflecting markets, products and services, and customers. All these factors drive significant diversity in resulting indirect rates, regardless of what the macro-level survey results indicate.

This is illustrated in the Defense Contract Audit Agency (DCAA) instructions to auditors, stating that indirect costs should not be compared between contractors at the rate level due to differences in cost accounting practices. These practices vary even more significantly from federal cost accounting requirements for universities.

Industry Contractor Overhead / Overhead Rates

Both CAS and the FAR impose constraints on how contractors may treat different costs. For example, CAS was developed to help ensure uniformity and consistency in measurement, assignment, and allocation of costs. Further, CAS and the FAR require that indirect rate structures must produce equitable allocations of costs, even as circumstances change over time. However, neither CAS nor the FAR provide explicit criteria nor a detailed blueprint on accounting for indirect costs. These guidelines leave room for interpretation, and they allow some flexibility at each step (including grouping of cost pools, selection of allocation bases, and establishment of organizational structures). This permits industry contractors to tailor cost accounting practices to their unique needs and operational requirements if they are within the boundaries of the regulations.

The number of overhead rates contractors maintain varies across Industry. The number of overhead cost pools will be influenced by the organizational structure, the services/products it offers and the size of a contractor. While some contractors select to have one overhead rate to represent the entire organization, others establish multiple overhead cost pools to allocate costs associated with different departments, activities, geographies, lines of business or a combination of these factors. For example, a service contractor will have a very different collection of overhead costs from those incurred by engineering or manufacturing contractors that have departmental overhead pools established for manufacturing, engineering, material, etc.

Industry rates are considered proprietary while the vast majority of IHEs publish their rate agreements on their websites and in the Federal Demonstration Partnership Expanded Clearinghouse.

Cost allocation treatment and overhead pool composition may vary depending on individual industry contractors' cost accounting practices. An industry contractor may include costs sometimes considered as G&A by other contractors in overhead pools. Also, some overhead pools may reflect a cost as native to the overhead pools as well as allocations from an expense pool or service center (e.g., facilities, IT, purchasing allocations), as will be discussed later. Finally, contractors may allocate similar costs differently, with one treating the cost as indirect and including it in an overhead pool while another contractor treats the cost as direct.

For each overhead pool established, a separate and distinct allocation base is established. Contractors may use a wide variety of allocation bases representative of the causal/beneficial relationship between the pool and its related cost objectives. For example, a service provider with one overhead rate may select direct labor costs to allocate the overhead pool, whereas a manufacturing overhead pool may be allocated over a base of direct labor costs, direct material costs, or even machine hours -- whichever best represents the benefiting activity.

As noted above, universities are not afforded this extensive flexibility, even when working under a government contract, and as such are generally unable to fully recover their actual costs.

Industry Contractor General & Administrative (G&A) Rates

Industry contractor G&A does not typically include those overhead costs that can be more clearly linked to production activities or functions (such as engineering or material handling). G&A expenses are defined in CAS 410 - Allocation of business unit general and administrative expenses to final cost objectives, as follows:

> **"General and administrative (G&A) expense means any management, financial, and other expense which is incurred by or allocated to a business unit, and which is for the general management and administration of the business unit as a whole."**

As a result, G&A costs typically relate to functions that serve the entire business enterprise and may include the costs of executive leadership, finance, legal, human resources, information technology, communications and sales activities or functions.

Like overhead, the composition of G&A pools can vary significantly from one industry contractor to another. An industry contractor may allocate some portion of typical G&A costs (e.g., information technology or facilities) to overhead while another contractor includes the entirety of the cost in the G&A pool. G&A may also incorporate allocations in from service centers or expense pools as well as allocations from corporate offices. In some cases, an industry contractor may combine its overhead and G&A costs into one pool for simplicity.

As with an overhead rate, the G&A cost pool would have an allocation base that best represents the total activity of the business unit to which the G&A is allocated. Three different G&A bases are described within CAS: i) single element input; ii) total cost input; and iii) value-added cost input. A single element input base may be representative of direct labor dollars. A total cost input base is composed of all costs of the business excluding G&A. A value-added input base is effectively a total cost input base, less direct material and subcontract costs.

While the composition of G&A pools and cost allocations are more uniform than overhead, industry contractors still maintain a degree of flexibility in accounting for their businesses while ensuring G&A is appropriately distributed to final cost objectives. However, the G&A rate, along with all other indirect rates, will be impacted by how well industry contractors manage expenses that go into the pools.

Service Centers and Expense Pools

Industry contractors often establish separate cost pools to manage and allocate costs associated with service centers that provide centralized support services benefiting multiple contracts, departments, or cost objectives. Universities also create service centers for allocation of some types of costs, but there are strict federal restrictions on the types of costs that can be charged through university service centers. Industry contractor service centers and expense pools are in addition to the standard Fringe Benefits, Overhead and G&A pools and can be allocated as direct or as indirect to other indirect pools for further allocation. Service centers and expense pools may originate at a corporate home office that allocates its costs down to business units or segments, or they may originate within an individual business unit or segment to be allocated within the business unit, segment, between segments or to a corporate home office.

Service centers accumulate the costs associated with a centralized service and may be allocated as direct or as an indirect cost into other indirect pools based on the activity, but the accounting practices and circumstances in which costs are allocated must be clearly defined, compliant with regulations, and consistently applied. The composition of service center cost pools and allocation bases can vary among contractors along with allocation bases that best represent how the services are consumed.

Expense pools do not provide services but are a set of related expenses. Like service centers, an expense pool can be allocated as direct or as an indirect expense allocated into other indirect cost pools based on causal/beneficial relationship.

FAR and CAS versus Uniform Guidance – Allocation of Indirect Costs

As discussed above, Industry follows the FAR and CAS for the allowability of costs charged to government contracts. On the other hand, colleges and universities as well as most independent non-profit research institutions follow the requirements of the Uniform Guidance for their costs charged against federal research grants. Note that colleges and universities that receive more than $50 million in federal awards must also follow the four Cost Accounting Standards listed in 48 CFR Part 9905. At a high level, there are similarities in the general principles for the cost treatment in both documents: the costs must be reasonable, allocable, allowable, and consistently treated (in accordance with the FAR, UG or terms and conditions of the award), and compliant with general accepted accounting principles or CAS. The differences are in the detailed treatments of specific items of cost between the two sets of requirements as shown in the table below. In addition, as discussed in Section 2.1, the university's overall administrative rate is capped at 26% on modified total direct costs since 1991. The differences mean that Industry is allowed to recover more fully the costs to perform government research while the universities are more restricted and must subsidize their research activities.

Cost Item	FAR Treatment – Contracts	Uniform Guidance Treatment – Grants
Independent Research and Development (IR&D)	Allowable – FAR 31.205.18	Unallowable as indirect costs. Must include in research base, lowering the rate
Bid and Proposal costs	Allowable – FAR 31.205.18	Allowable in Sponsored Project Administration & Departmental Administration – capped
Cost of Money	Allowable – FAR 31-205.10	Unallowable. Interest on capital assets is allowable, with restrictions
Profit or fee	Allowable – FAR 15-404-4	Unallowable
Selling and Marketing costs	Allowable – FAR 31.205.38	Unallowable

In addition to the difference in the indirect cost recovery, the RAND Report – Paying for University Research Facilities and Administration [3] found that "the underlying cost structures in universities have lower F&A costs than federal laboratories and industrial research laboratories. Because of specific limitations on university F&A reimbursement, such as the 26% administrative cap, the actual amount awarded to universities for F&A costs is likely to be even lower than what cost structure comparisons would indicate." Table 3.1 in the report, from an earlier Arthur Andersen study, shows that the universities have the lowest percentage of indirect costs of total project costs. (i.e., 31% for universities, 33% for federal laboratories and 36% for industrial labs).

RAND also found the following:

- About three-quarters of federal outlays support the direct costs of conducting research, such as the materials and labor used to perform each project. The other 25% covers facilities and administration (F&A) costs.
- Some federal agencies, such as USDA, have statutory caps on that limit the amounts that they pay for indirect costs, regardless of the negotiated rates.
- In contrast to the prevailing concerns about overpayment, university indirect rates remained constant for more than a decade and were lower than those at federal or private labs.
- A substantial portion of universities' F&A costs were due to federal, state, and local health, safety, and other regulations.

3 Paying for University Research Facilities and Administration | RAND

Table 3.1

Fraction of Total Costs Classified as Direct and Indirect in Three Sectors (Arthur Andersen, 1996)

	Universities (n = 7)	Federal Labs (n = 13)	Industrial Labs (n = 13)
Costs classified as direct	69%	67%	64%
Costs classified as indirect	31%	33%	36%

SOURCE: Arthur Andersen, 1996.

3 INDIRECT COST RATES & RECOVERY – PRIVATE V. PUBLIC UNIVERSITIES

Private universities often have indirect cost rates that are higher than those at public universities. Data analytics from a recent report on indirect cost recovery (https://www.nber.org/papers/w33627) shows that the overall effective indirect recovery rate (total indirect costs over total direct costs) for private institutions has, on average, been higher than the average for public institutions, based on NIH funding data (see table 1 – Effective Recovery Rate - Public versus Private Institutions). Note that this general observation is not without exception, as some public universities have documented and negotiated rates that are higher than their private counterparts. Further, it appears that, since the mid-1980's, this gap has been narrowing. Nevertheless, some have suggested[4] that private universities are gaming the indirect cost system to obtain more funding than other institutions or that are reasonable and necessary costs to conduct research.

That belief is a misconception and misrepresents the actual reasons for differences in rates between various universities. Moreover, current federal rules and accompanying audits ensure that no university is allowed to be reimbursed more than its costs.

In the following sections, we will discuss the current indirect-cost-rate-setting process from development of rates through negotiations of rates as well as the review and audit of the rates and their application to federal awards – steps that are identical for both private and public universities. We will explore the possible reasons that cause the difference in rates at universities. Under the UG requirements, the Department of Health and Human Services' (HHS) Cost Allocation Services (CAS) and the Office of Naval Research (ONR) are the only two federal cognizant agencies for indirect costs for all the universities (public and private). We will explore the difference in their approaches to the review and rate approval processes. Universities that do not receive federal funding directly from a federal agency must negotiate their rate with the pass-through entities (unless they use the 15% *de minimis* rate).

Table 1 – Effective Indirect Cost Recovery Rate – Public versus Private Universities

Panel (B): Public vs. private institutions

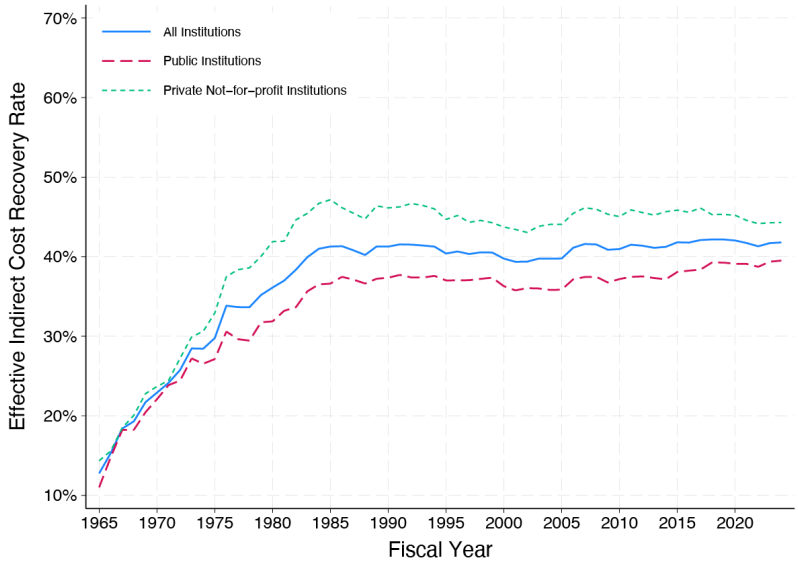

Figure 3, INDIRECT COST RECOVERY IN U.S. INNOVATION POLICY: HISTORY, EVIDENCE, AND AVENUES FOR REFORM – Pierre Azoulay (MIT & NBER) April 25 paper https://www.nber.org/papers/w33627 Notes the effective recovery rate is not the negotiated rate but the percentage of total indirect costs over direct costs, and is based only on NIH funding data.
Note: The original chart contains a spelling error that has been corrected in the above version.

4 Source: (1) POLITICO – "Kennedy floats two-tier higher ed funding plan" (May 21, 2025), (2) https://undark.org/2025/03/10/nih-funding-cuts-universities/

3.1 THE SINGLE AUDIT AND OTHER REVIEWS

For institutions with federal expenditures of more than $1 million, both private and public institutions are subject to an annual single audit that reviews the institution's financial statements, internal controls, and federal award expenditures, including the application of the negotiated rates to the federal grants. The only difference between the private and public universities in the Single Audit area is that in some states (as allowed by the UG), the public universities' single audit is included as part of the Statewide Single Audit, which may render less audit exposure for the public universities.

After an F&A rate is agreed on by a research institution and the government, the government retains the right to audit the institution's spending and to seek adjustments to the agreed-upon rate based on the results of its audit. Further, private and public universities are both subject to additional audits that are performed by the various funding agencies' Inspectors General offices or the Government Accountability Office.

To simplify relations between federal grantees and awarding agencies, OMB established the cognizant agency concept since the creation of OMB Circular A-21 in 1979, under which a single agency represents all others in dealing with grantees in common areas. An institution's cognizant agency for audit monitors the process above while the cognizant agency for indirect cost reviews and approves grantees' indirect cost rates. Approved rates must be accepted by all other agencies unless specific statutory requirements, program regulations or the awarding federal agency officially restrict the recovery of indirect costs. For colleges and universities, to enhance consistency in the application and interpretations of the UG cost principles, beginning with fiscal year 1998, OMB further required that the Department of Health and Human Services (HHS), Cost Allocation Services (CAS) and the Office of Naval Research (ONR) be the two government offices that negotiate and approve indirect cost rates for universities. Prior to that time, the federal agency with the predominant award funding would be the cognizant agency. Multiple agencies (including the Department of Energy and National Science Foundation) had been allowed to negotiate university indirect costs for specific universities.

For universities with HHS CAS as their cognizant audit agency, the CAS's Best Practices Manual serves as the official guide for CAS negotiators to review university's indirect cost proposal; it does not mention the words "private" or "public" to classify universities for different review approaches. This signifies that the same review method is used for both types of universities. ONR, through the Defense Contract Audit Agency (DCAA), perform s a preliminary official audit of the indirect cost proposal before ONR approves a negotiated rate, using a standard audit process, which is not impacted by whether the university is public or private. There are no special differences or considerations by the cognizant agencies between private and public universities when they determine indirect cost rates.

3.2 INDIRECT COST PROCESS

The indirect cost process (described in the Background section) is applicable to both private and public universities, without any exceptions, exclusions or allowances for deviation.

As stated earlier in the paper, both public and private universities follow the same cost principles issued by the Office of Management and Budget (OMB) to develop and negotiate their indirect cost rates. The original OMB A-21 was established in 1979 and later replaced in 2013 with Uniform Guidance 2 CFR Part 200. Over the years, OMB Circular A-21 and the Uniform Guidance were revised numerous times to restrict the reimbursement of actual costs to perform research under federal awards. Some examples are:

1986	Establish a fixed allowance for academic department heads at 3.6% for salaries and fringe benefits attributable to the administrative work (including bid and proposal preparation) of faculty (including department heads) and other professional personnel conducting research and/or instruction.
1991	Limit the administrative components of the indirect cost rate to 26%
1998	Eliminate the use of special cost studies to document utilities costs and establish a utility cost adjustment (UCA) at 1.3 % for universities that had previously used such studies, with no adjustment for others.
2013	Consolidate all OMB grant circulars into the UG applicable to all grantees. Allow the use of the UCA factor, up to 1.3%, for all universities.

3.3 DIFFERENCE IN RATES

The institution-specific negotiated F&A rates that result from this rigorous and evidence-based negotiation process vary widely depending on the location and research focus of the institution. This variation in rates is not reflective of any difference in the relative negotiating power of these different institutions but rather is a function of a variety of other factors related to their cost structure.

One cause for differences in rates can be attributed to geographical differences. Research institutions located in places with high land costs and higher costs of living typically have higher negotiated rates because expenses like real estate, facilities maintenance, and personnel costs are higher in those areas.

Institutions engaged in research using very expensive equipment shared across projects, in particular in biomedical research, also tend to have higher F&A rates. Institutions with newer research buildings will also often have interest costs that would result in higher F&A rates.

Some examples demonstrate that the type of research is a clear reason for the indirect cost rate difference. Let's take for example the rates for the institutions in the Boston area. The rates of public universities are comparable to the private universities when biomedical research and engineering are being conducted (Harvard University – Medical School – 69%; Harvard University School Main Campus- 68.5 %; MIT – 61.30%; University of Massachusetts-Chan Medical School – 67.50%; Brandeis University – 62.50%). On the other hand, because of the different missions and types of research, the rates of other universities in the area are lower, regardless of whether they are private or public schools (Harvard University School of Public Health – 54%; Boston College – 55%; University of Massachusetts – Lowell – 56.50%).

Another reason for the difference in rates between the private and public universities is the (typically) much larger instructional base at public universities. Indirect cost allocations spread the burden of shared expenses among instruction, research, and all other activities of the institution benefiting from the cost. At many public universities, a larger volume of instruction expenses compared to sponsored research expenses may result in lower F&A rates for research. This occurs because to allocate costs, universities sub-pool shared indirect costs for things like utilities, maintenance, and administration. A university with a large instructional base must then consistently and equitably distribute these costs proportionately to instruction, research, and other activities. The allocation of these costs depends heavily on which activity "drives" the cost. For example, library costs might be allocated based on the relative usage by instructional departments (which cannot be reimbursed as an indirect cost) versus research projects (which can be reimbursed as an indirect cost).

Another reason for rates differences among universities is the level of specialized resources an institution allocates to the development of the rate proposals. Many institutions resource a combination of specialized staff, dedicated software and data systems, and expert third-party consultants for developing proposals and negotiating rates. These specialized financial and administrative expert resources ensure proposals are demonstrably accurate, compliant, and defensible to federal agencies or other funders. This complicated process follows the strict cost principles promulgated in the Uniform Guidance. While these rules apply uniformly to all institutions, institutions that are able to employ specific tools to collect, manage, and analyze the data required for rate proposals can be more successful in negotiating their requested cost rates during the proposal review and rate negotiation with the federal government. Institutions with larger research bases are more likely to determine the cost of those tools are worthwhile. While the federal government is agreeable to establishing higher rates for these institutions, this only occurs when they are able to irreproachably document and support their rate proposal and in no instances do the federal cognizant agencies provide indirect cost rates that would result in reimbursements for anything other than actual incurred costs benefiting research.

Finally, public universities sometimes have lower indirect-cost rates because some of their indirect costs, such as building maintenance, are paid for directly by the state government. State governments may directly pay to maintain or at least defray a portion of the costs of maintaining the buildings on their public university campuses. Thus, this maintenance expense is not included in these universities' F&A rates unless the state specifically identifies these costs in its Statewide Cost Allocation plan (which is also reviewed and approved by the Department of Health and Human Services).

INSTITUTIONS OF HIGHER EDUCATION		
R&D FUNDING according to 2024 HERD SURVEY		
Selection	Count	
	Private	*Public*
TOP 50 R&D FUNDING RANKING		
1 – 25	10	15
1 – 50	18	32
HIGHEST INDIRECT COST RATES FOR TOP 50 RANKING		
1 – 25	13	12
1 – 50	18	32

The chart on the right based on the information from the NSF HERD Survey shows that there are no preferences toward private universities for the receipts on Federal research dollars or for having higher indirect rates for conducting research. For the level of R&D funding for the top 50 universities, 32 (or 64%) are public and 18 (36%) are private. For the highest indirect rates among the top 50 universities, the same counts and percentages apply – 32 (or 64%) are public and 18 (36%) are private.

3.4 CONCLUSION

There is a perception that indirect cost rates at private universities are higher than rates at public universities due to inconsistent rules and negotiating processes across institutions. However, as our report demonstrates, differences in rates do not arise from a different set of rules or processes applied to private universities. In fact, indirect cost rates negotiated by private institutions are not consistently higher than rates negotiated by public institutions. Both types are subject to the same rules in the Uniform Guidance, the same review and negotiation process, and the same level of audit. Differences in indirect cost rates arise from types of research, school location, subsidies provided by states, and the volume of research conducted at an institution compared to teaching and other activities across which indirect costs are allocated.

APPENDIX A

The Department of Energy currently operates 17 National Laboratories:

GOVERNMENT OWNED, GOVERNMENT OPERATED

1. **National Energy Technology Laboratory:** Albany, New York, Morgantown, West Virginia, and Pittsburgh, Pennsylvania

GOVERNMENT OWNED, CONTRACTOR OPERATED

2. **Ames Laboratory:** Ames, Iowa
3. **Argonne National Laboratory:** Argonne, Illinois
4. **Brookhaven National Laboratory:** Upton, New York
5. **Fermi National Accelerator Laboratory:** Batavia, Illinois
6. **Idaho National Laboratory:** Idaho Falls, Idaho
7. **Lawrence Berkeley National Laboratory:** Berkeley, California
8. **Lawrence Livermore National Laboratory:** Livermore, California
9. **Los Álamos Nacional Laboratory:** Los Alamos, New México
10. **National Renewable Energy Laboratory:** Golden, Colorado, Fairbanks, Alaska, and Washington D.C.
11. **Oak Ridge National Laboratory:** Oak Ridge, Tennessee
12. **Pacific Northwest National Laboratory:** Richland, Washington
13. **Princeton Plasma Physics Laboratory:** Princeton, New Jersey
14. **Sandia National Laboratories:** Albuquerque, New Mexico, Livermore, California, and Tonopah, Nevada
15. **SLAC National Accelerator Laboratory:** Stanford, California
16. **Savannah River National Laboratory:** Aiken, South Carolina
17. **Thomas Jefferson National Accelerator Facility:** Newport News, Virginia