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COMMITTEE ON GOVERNMENTAL RELATIONS

The National Association of College and University Business Officers

1785 MASSACHUSETTS AVENUE, N.W. • WASHINGTON, D. C. 20036 • (Area Code 202) 667-0820

June 18, 1969

TO: REPRESENTATIVES OF PARTICIPATING INSTITUTIONS

RE: GAO Study of Indirect Costs of Federally Sponsored Research.

The GAO report to Congress was issued on June 12. A digest of the report is reproduced below.


You will note that it refers to the interagency study, headed by the Bureau of the Budget, aimed at reducing inconsistencies among federal agencies in the terms and conditions of contracts and grants. The GAO indicates that this study includes the possibility of issuing guidelines as to when a grant or a contract should be used, as well as the feasibility of a research agreement instrument. We believe, however, that the interagency study will recommend against such guidelines and against the development of a research agreement instrument at this time. It will propose that greater consistency be obtained within the framework of the present instruments, believing that the problems of inconsistency are unrelated to the name of the instrument used.

Copies of the GAO report are not available in quantity. As long as the supply lasts, single copies may be requested, on the letterhead of the institution's administrative offices, from the Reports Distribution Section, U.S. General Accounting Office, Room 6417, 441 G Street, N.W., Washington, D.C. 20548. The report number is B-117219.

(INFORMATION OBTAINED JUNE 16 FROM LESTER)  
JAMES, GAO - 386-4657

The digest of the report follows.

Sincerely yours,

  
Howard P. Wile  
Executive Director

HPW:dk

COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

D I G E S T

WHY THE STUDY WAS MADE

- - -  
STUDY OF INDIRECT COST OF FEDERALLY  
SPONSORED RESEARCH PRIMARILY BY  
EDUCATIONAL INSTITUTIONS  
[B-117219 - June 12, 1969]

In accordance with a request by Congressman George H. Mahon, Chairman, House Committee on Appropriations, and a similar requirement in the House

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Conference Report on the Department of Defense (DOD) Appropriation Act for 1969, the General Accounting Office (GAO) made a study to assist the legislative and appropriation committees in achieving a realistic and uniform formula for ascertaining indirect costs on research grants.

## FINDINGS AND CONCLUSIONS

A uniform formula, in the sense of a uniform percentage rate to be applied to direct cost or some element thereof, will not result in a realistic or equitable determination of indirect cost based on sound accounting principles.

It is not feasible to determine indirect cost by a fixed method or procedure applied uniformly under all conditions. There is not enough standardization among research institutions and projects to permit use of a uniform formula or a fixed method of determining indirect cost.

Uniform principles and guidelines can be used, however, for determining indirect cost, provided that they have sufficient flexibility to be applicable to differing circumstances in an equitable manner. Such principles and guidelines are provided in Bureau of the Budget (BOB) Circular No. A-21. Revisions to A-21 have been made from time to time with the assistance of the Government agencies administering research programs and after discussions with representatives of the educational institutions.

A need exists, however, for further changes in the provisions and administration of A-21.

To the extent that cost sharing--a sharing in the cost by the research institution--is to be required, relating cost sharing to the total cost of the research is more appropriate than imposing a limit on the rate of indirect cost. A limit does not adequately provide for variations in the levels of indirect costs.

It appears highly desirable that some flexibility in requiring cost sharing be provided because of the diverse circumstances and considerations involved. Cost sharing could be handled by negotiation between the responsible Government agency and the awardee within such restrictions as the Congress may impose.

Participants would have to consider those policy or program aspects as may be pertinent to the research involved, such as

- the degree of interest in the research,
- the nature of costs to be incurred,
- the effect of the work on the academic programs and the financial condition of the institution, and
- the desirability of using a particular institution for a specific project.



The Subcommittee on Government Research of the Senate Committee on Government Operations began hearings on this subject on April 22, 1969.

#### RECOMMENDATIONS OR SUGGESTIONS

BOB and the administrative agencies concerned should consider providing more specific guidance in A-21 in certain areas and more uniformity in implementing its provisions. (See p. 37.)

Even with the most specific guidance practicable, variations are to be expected in the levels and rates of indirect cost. These variations occur because of the different kinds of research, the methods of operation, the nature of facilities, and the organization of research activities.

If cost sharing is to continue as a requirement for grants, a need will exist, on a Government-wide basis, for well-defined, uniform standards governing the use of contracts or grants for research. Such guidance will be necessary for consistent application of cost sharing. GAO considers such criteria and guidance to be both feasible and desirable.

#### AGENCY ACTIONS AND UNRESOLVED ISSUES

BOB informed GAO that, in connection with the next revision of A-21, it would strive toward the objective of providing more specific guidance in the areas identified by GAO as needing improvement. BOB also stated that an inter-agency study had been initiated to give consideration to reducing inconsistencies among agencies in terms and conditions of contracts and grants.

As part of this study, BOB is also exploring the possibility of establishing guidelines as to when a grant or a contract should be used, as well as whether a new type of instrument, such as a research agreement, should be developed to replace some of the current grants and contracts.

#### MATTERS FOR CONSIDERATION BY THE CONGRESS

There are divergent views on the question as to whether the institutions engaged in research should or should not share in the cost. These differing views cause recurring problems. If a consistent policy is to be followed by the various agencies concerned, there will be a need for guidance from the Congress or the executive branch.

The Congress may wish to consider accomplishing this guidance through one of the interested congressional committees. The committee so charged could obtain the views, recommendations, and supporting argumentation from the major executive agencies concerned and from representatives of institutions engaged in research work. It could recommend legislation to establish a

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uniform Government-wide policy as to whether the recipients of research grants would be required to share in the cost of research and, if so, the circumstances in which cost sharing shall be required, the degree of sharing, and the flexibility to be allowed in its implementation.

This approach seems to provide an effective means of presenting pertinent information and views to representatives of the Congress. A uniform policy could be formulated and proposed and a final decision made by the Congress for resolution of this recurring problem.

GAO believes that, if mandatory cost sharing is to be required, as an alternative, the necessary control over cost-sharing policies of the individual agencies could be obtained through the normal congressional legislative and appropriation hearings. On the basis of such congressional review, the agencies could be required to make any necessary revisions in their policies.

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