

How to Improve F&A Recovery and Refine Your Research Investment Strategy

A Proactive Approach to Facilities and Administrative Funding: Part 2



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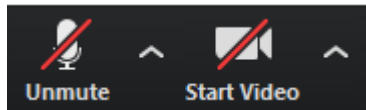
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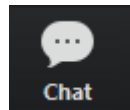
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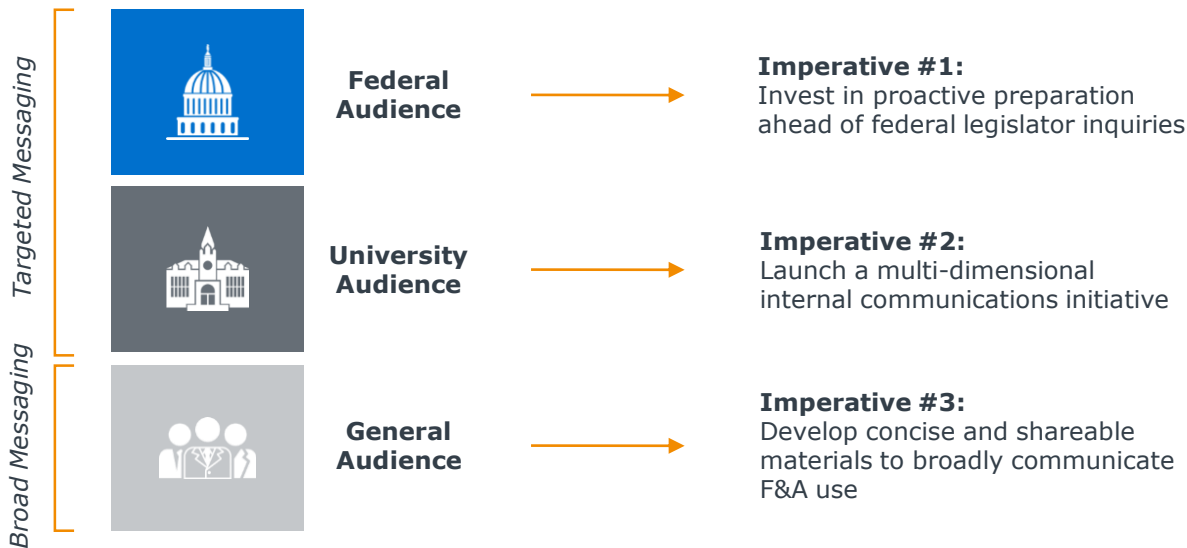


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Quick Recap: Teaching Stakeholders About F&A

Three Imperatives for Optimizing Education and Advocacy Efforts



Visit eab.com to access our archived materials on all things F&A.

1 Identifying Opportunities to Recover More

2 Deploying Strategic Dollars Effectively

3 Questions?

New Funding Sources, New F&A Challenges



We're Getting More Funding from Industry and Foundations...

28.7%

Increase in business funding from FY12 to FY16

14.6%

Increase in nonprofit funding from FY12 to FY16

...But We're Not Getting Full F&A...



Reasons Industry Doesn't Pay Full F&A:

- Focused on the bottom line
- Not interested in "extraneous costs"
- Offer business to "lowest bidder"



Reasons Foundations Don't Pay Full F&A:

- Genuine nonprofit mission
- May not have available resources

...Which Contributes to Substantial Underrecovery

\$5B+

Total F&A not recovered by all doctoral institutions in FY16

30.5%

Percent of total F&A not recovered by all doctoral institutions in FY16

Checking Boxes, but Leaving Money on the Table



8

Improved Negotiation Yields Better Rates, but Underrecovery Still Prevalent



Getting Better on the Negotiated Side...

- Smarter space accounting practices better capture full scope of research across campus and boost negotiated rates
- Staggered rate increases help recover more while dampening faculty concerns about competitiveness
- Better survey tools and data collection methods yield more defensible space and administrative use data
- More comprehensive accounting systems better track (and confirm) spending on research support



...But Effective Rates Remain Low



Fear of **diminished competitiveness** causes faculty not to include F&A in federal proposals



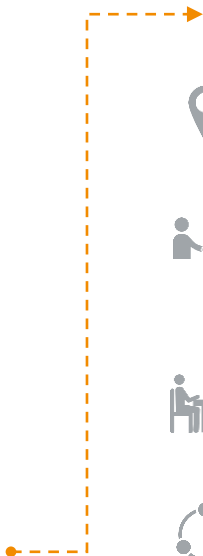
Prioritization of **partnerships over recovery** causes institutions to conduct industry-sponsored research without charging F&A



Uncertainty about **direct and indirect charges** for foundations and non-profits causes confusion among faculty

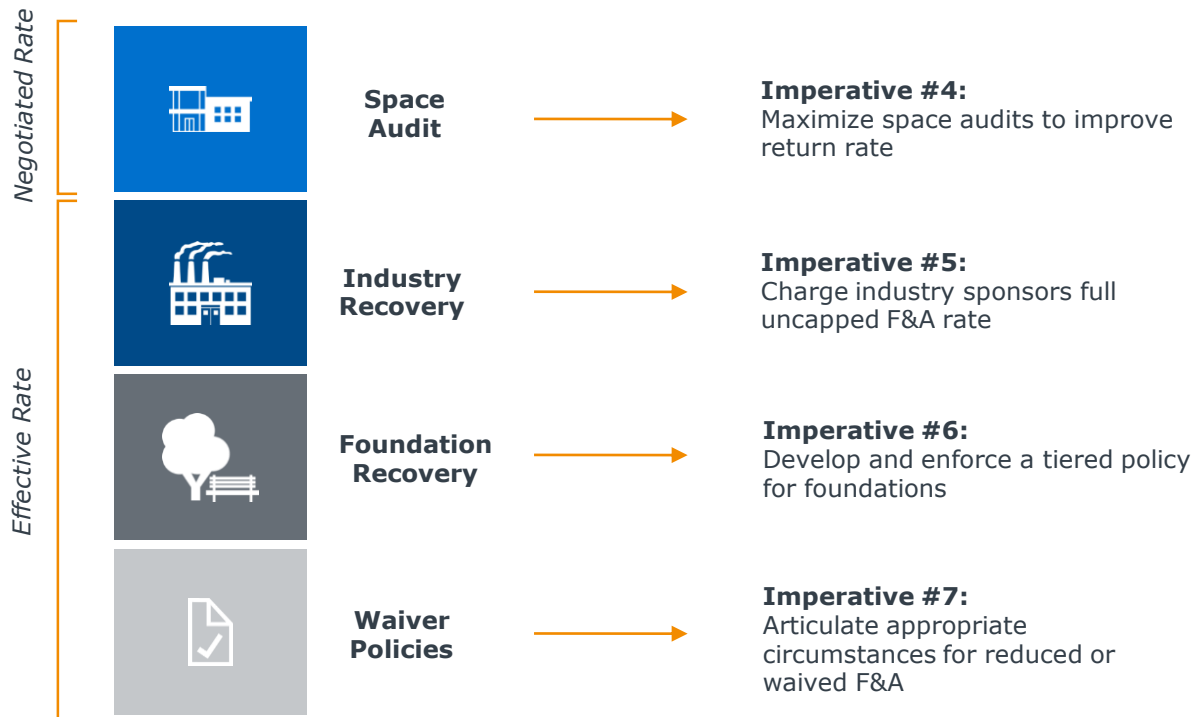


Haphazard enforcement of F&A waiver policies causes faculty to ask for (and receive) more reduced rates and waivers



A Problem of Policy and Enforcement

Four Imperatives for Streamlining F&A Policies to Maximize Recovery



Space Survey Drives the “F” in F&A

Despite Importance, Institutions Struggle with Optimization

Strategic Importance of Space Survey



Facilities portion of F&A is uncapped



Facilities pools have biggest impact on overall F&A rate



Space survey is the main driver of 4 of the 5 facilities pools



Accurate space accounting critical for F&A rate growth



Operational Challenges



Space survey requires collaboration and coordination across units



Difficult to ensure consistent methodology across units



Time-consuming and expensive process



Depends heavily on accurate and accessible data

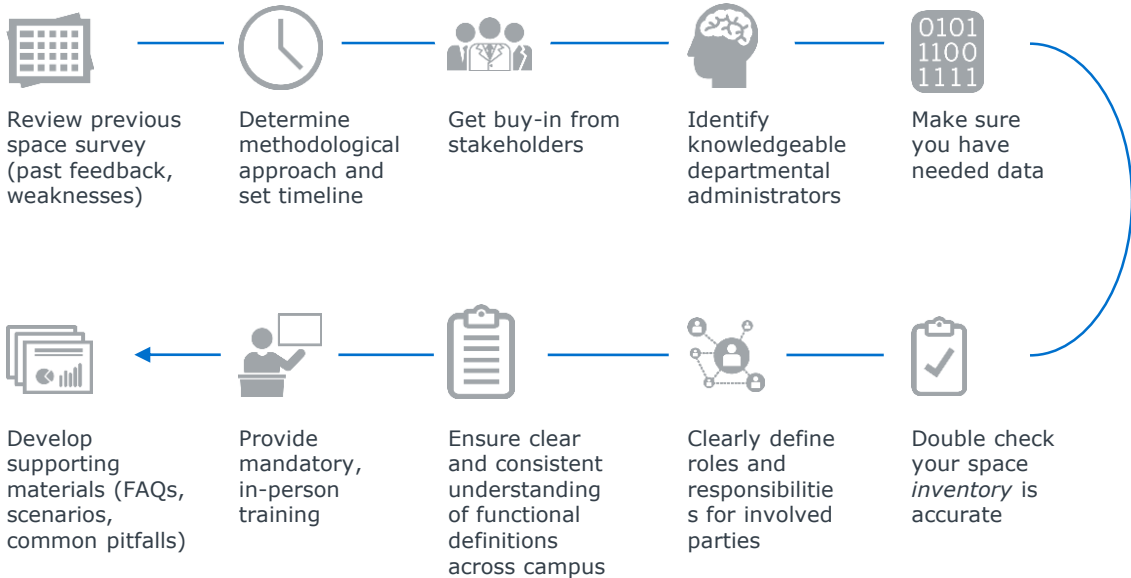


Underrecovery due to poor accounting for space used for research purposes

On the Front End: Do Your Homework

Adequate Planning and Preparation Is Critical for Survey Success

Critical Components of Pre-Survey Planning



On the Back End: Check It Twice

Strategies for Catching Errors and Getting Out Ahead of Federal Audits

Questions Guiding Government Audits

- 1 Were processes and policies for conducting the survey adequate and enforced?
- 2 Were the surveyors appropriately designated (e.g., first-hand knowledge of space use)?
- 3 Did the institution provide surveyors with adequate training?
- 4 Did the institution ensure consistency across departments and campus?
- 5 Are there any red flags in the survey results?

Warning Signs to Recognize



Rooms designated 100% OR¹



Overgeneralized pattern designations²



Mismatched space and base³



Unfunded occupants, unpaid students, volunteers



Visiting professors or emeritus faculty



Start-up, bridge, and/or seed funding

1) Organized Research

2) For example repeatedly designating spaces as 95% Organized Research and 5% Instruction/Departmental Research

3) When the space designation (e.g., Organized Research) doesn't align with the nature of the financial accounts associated with the space

Imperative #4: Next Steps

CROs May Not Own the Survey Process, but They Need to Support It

Three To-Dos for CROs

Engage

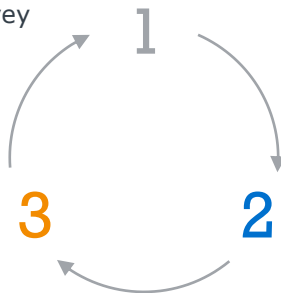
- ✓ **Familiarize yourself** with space survey process, terminology, and past results
- ✓ **Touch base** with the space team on campus responsible for the survey

Support

- ✓ **Review OR¹ and OSP² definitions** to ensure accuracy and alignment
- ✓ **Participate in the space team's** survey planning process
- ✓ Work with space team to **develop validation checklist** and list of **FAQs** for departmental administrators
- ✓ **Support communications to colleges and departments** about importance of space survey

Strategize

- ✓ Engage in larger conversations with space team about **space allocation on campus** (and its effects on F&A)
- ✓ Consider whether investing in external **consulting services** for space survey would be worthwhile



1) Organized Research
2) Other Sponsored Programs

Haggling Over the Bill

Industry Dislike for F&A Stems from Misunderstanding

What Industry Expects When Sponsoring Research



Quick contract turnaround



Customized output specific to their scope



Market-sensitive project completion timeline



Minimum cost for maximum return

Arguments Industry Uses to Resist Paying F&A

"Double Dip"

Corporate partners believe that, since F&A supports costs already incurred, universities are attempting to get reimbursed twice for the same expenses.

"Everything Is Negotiable"

In the private sector, nearly any component of a contract can be negotiated. The same extensions do not always apply in higher education, especially with for-profit entities.

"Better Rate with Your Competitor"

Companies like to play universities against each other to get a better rate, especially around F&A and intellectual property.

Not Always Black and White

Reasons Not to Charge Full Rate Vary by Institution Size and Strategy



What's a University To Do?

Charge Full Rate



Rationale:

- Officially, the university can't offer a for-profit entity a better deal on research than the federal government
- Companies can afford the overhead costs
- There are other negotiation levers the university can use

Negotiate As Needed



Rationale:

- The company is too small or too important to risk "overcharging" them
- The company can reimburse the university through other fees for their work
- So long as the university uses non-federal funds to make up for the lost F&A dollars, there's not a problem

If Not F&A, What Else?

Identifying Other Points of Leverage in Industry Negotiations

Intellectual Property (IP)



Upfront Terms

Universities can allow companies to reserve the IP resulting from sponsored work at the onset of the project



Backend Terms

Universities can also offer more favorable terms to sponsors at the end to cover F&A costs incurred during the process



“Try and Buy”

Universities can offer discounted trial periods of licenses and products

Facility Sharing



Access to Cores

Universities can offer access to facilities and equipment that companies might not have



Shared Working Space

Universities can offer access to collaborative working spaces that connect industry scientists with academic researchers



Meeting/Retreat Space

Universities can offer preferred access to meeting or retreat spaces on campus

Personnel Access



Executive Time

Universities can offer company executives face time with their presidents



Faculty Consultations

Universities can propose specific faculty technical consultations or speaking arrangements



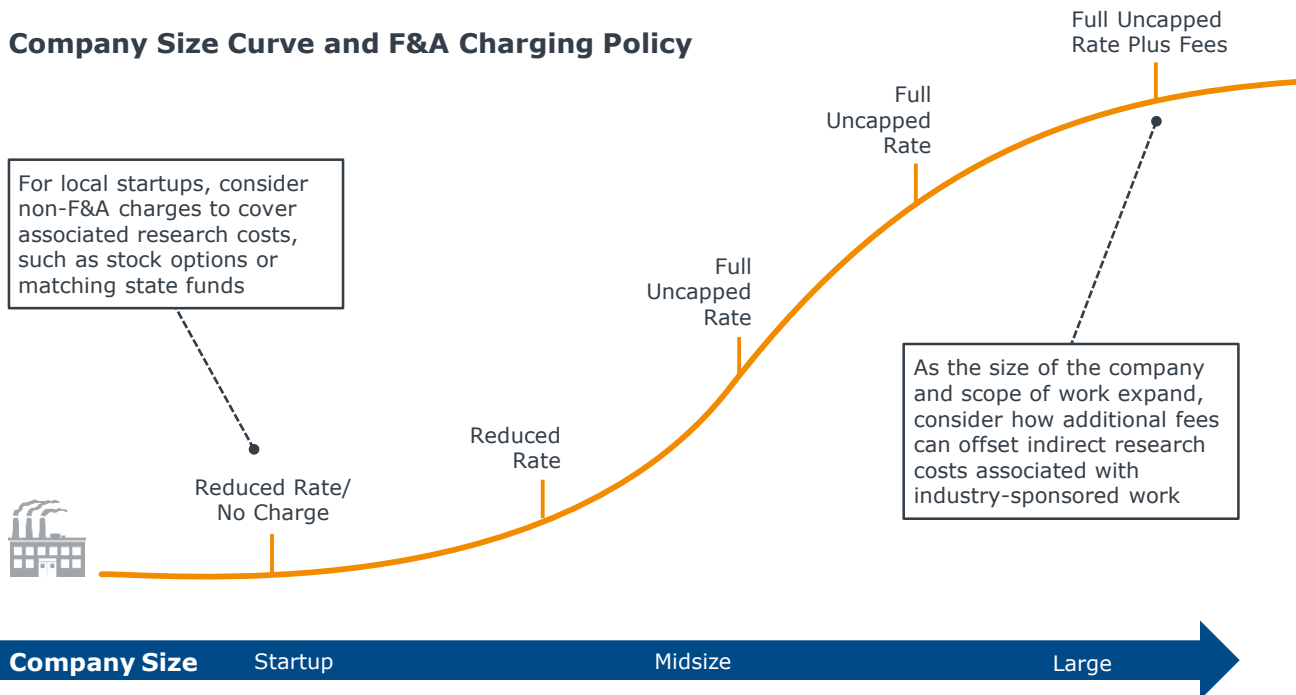
Student Recruitment

Universities can offer preferred placement at career fair and recruiting events

Imperative #5: Next Steps

Making a Commitment to Being Intentional

Company Size Curve and F&A Charging Policy



F&A Sours University-Foundation Relations

Typical Foundation Policies on F&A



Pay less than the full federally-negotiated rate



Don't have a published rate



Don't specify what can be charged directly



Use ambiguous language (e.g., "will pay up to...", "...case-by-case basis")

Implications for Institutions



Ad hoc institutional policies and processes



PIs don't ask foundations about F&A or include it in their proposals



Underrecovery (and increased institutional subsidy)



Federal concerns about subsidizing foundation research

Funding from Foundations: Pros and Cons



PIs need research support (especially from alternative sources like foundations)



Pressure to increase effective recovery rate



Foundations are reliable and easy to work with



Financial disincentive to accept foundation grants













Valid philosophical reasons to not charge foundations F&A



Waived/reduced F&A for one sponsor frustrates and confuses other sponsors

But Mission Alignment Outweighs F&A Loss

Three Reasons Why We Accept Reduced F&A from Foundations

TYPE OF RESEARCH	COST ACCOUNTING	PORTFOLIO SHARE
 More philanthropic	 Not held to same standards as federal government	 Only ~6% of academic R&D funding
 Less lab-based (and often less expensive)	 Greater flexibility	 Lower rate has fewer effects due to small share of research portfolio
 Fewer infrastructural investments and requirements	 Allow for more items to be direct charged	
 More narrowly-focused	<div> COGR report showed 50% F&A rate for NIH-sponsored project and 10% rate for foundation-sponsored project were almost equal in terms of percentage of total funding </div>	
 Supplements existing research		

A Reminder for the Federal Government: OMB rules require institutions to calculate F&A rate by allocating costs across all research (not just federally-sponsored)—this ensures the federal government doesn't subsidize research sponsored by private foundations

Move Away from “One-Size-Fits-All”

Developing a Tiered Policy for Foundations

Published Policy

Foundations with published rate and clear policy for direct charging

Policy

- Use foundation’s published rate
- PIs not required to submit waiver request

Existing Relationship

Foundations your institution has worked and established a rate with in the past

Policy

- Use institution’s established rate
- PIs not required to submit waiver request

Strategic Partner

Foundations without a clear and published policy but that are strategically important to your institution

Policy

- PIs required to inquire about policy (rate and allowable direct charges)
- PIs required to submit waiver request for rates below federally-negotiated
- Research office facilitates negotiation with foundation

Ambiguous Policy

Foundations with no published rate or clear policy

Policy

- PIs required to inquire about policy (rate and allowable direct charges)
- PIs required to submit waiver request for rates below federally-negotiated
- Research office assesses whether the project warrants a waiver (depending on nature of the work, size of project)

*Reduced Rate:
Automatically Approved*

*Reduced Rate:
Less Frequently Approved*

Imperative #6: Next Steps

Benefits of a Tiered Policy for Foundations

- ✓ Reduces ambiguity
- ✓ Addresses common faculty questions
- ✓ Reduces waiver burden on PIs and staff
- ✓ Still allows some flexibility

Strategies to Optimize Policy Effectiveness



Communicate Policy Broadly

- Update your website
- Send internal memo to stakeholders
- Host open forum and campus presentations to address questions
- Curate a publicly-accessible list of rates/policies



Track Policy Patterns

- Keep a record of reduced rates you approve for foundation awards
- Crosscheck faculty waiver requests for foundation awards with records to ensure they match previous rates



Enforce Policy Compliance

- Require units to cover any difference between the policy-approved rate and the actual rate PIs receive
- Reduce F&A returns if units recover less than permitted

A Minor Exception Treated Like a Loophole

Overly Liberal Waiver Allowance Leads to Overutilization, Underrecovery

Where Most Waiver Policies Fall Short



Lack of Appropriate Waiver Use Examples

Policies topline process for completing a waiver request, but without articulating when to request a waiver



Little Distinction Between When to Reduce vs. When to Waive

Policies articulate an “all or nothing” position when there are circumstances that require reductions versus waivers



Infrequently Stated Repercussions for Misuse

Most policies fail to codify which office or department must make up for waiver abuse or F&A shortfalls



Minimal Articulation of Underrecovery Harm

Policies may articulate benefits of F&A but do not describe impact of underrecovery on university research



Three Circumstances Every Waiver Policy Needs to Address



When Reduced/ Waived F&A Is Appropriate

Be Specific and Include Examples

Although it adds length to the policy, concrete examples help PIs better understand when they should request a waiver



Arizona State University's F&A Wizard

Available publicly on their website, it allows PIs to plug in their specific project type and receive the exact rate they should be applying to their proposal



When Reduced/ Waived F&A Is Not Appropriate

Debunk Common Myths in Inappropriate Examples

Highlighting specific instances when PIs should include F&A but fail to do so promotes future inclusion



UNIVERSITY OF MINNESOTA

University of Minnesota's Acceptable/Unacceptable Waiver Rationales

The policy details scenarios when a waiver is appropriate as well as when a requested waiver is not approved



Who Pays When Waiver Policies Are Not Followed

Detail Who Picks Up the Bill and Downstream Impacts

Policies should articulate which individuals pay for underrecovery and how it impacts all researchers



Boston University's Unrealized F&A Procedure

The policy explicitly states that the dean or department chair that approved a waiver without proper rationale can be required to pay the difference

Taking Waiver Policies from Paper to Practice

Crucial CRO Talking Points for Key Campus Audiences

Deans



"You have absolute authority over F&A"



Instead:

"Underrecovery is not a victimless crime"

Deans need to understand that their actions (and those of their department chairs and PIs) impact research services across the university

To do this, CROs should:

- Share recovery and underrecovery data
- Develop strategies to improve recovery
- Help deans prioritize F&A spending on strategic priorities

Department Chairs



"The deans or central will take care of it"



Instead:

"You break it, you (might have to) buy it"

Department chairs often have waiver sign-off authority but little reason to evaluate requests thoroughly

To help them understand their role, CROs should:

- Articulate appropriate and inappropriate waiver request scenarios in F&A policies
- Centralize (and publicize) waiver FAQs
- Reinforce that departments may have to reimburse the institution for inappropriate waiver approval or use

Faculty



"F&A is important, you should care"



Instead:

"Intellectual rigor is more important than the budget"

Faculty often believe that including F&A in their proposals makes them less competitive

To help debunk this myth, CROs should:

- Highlight agency statements that say F&A does not influence proposal success
- Share the impact of underrecovery at the individual PI level
- Reinforce that departments and colleges may have to reimburse the institution for inappropriate waiver approval or use

Imperative #7: Next Steps

Track Waiver Policy Use and Deploy Data Strategically

Collect ►



Data Points to Collect

- Total underrecovery in a fiscal year (dollars and percent of recovery)
- Number of reductions and/or waiver requests by PI, department, center or institute, and college
- Required support for research office and services
- Investments required for long-term strategic research initiatives

Deploy ►

1

Rally Cabinet Members

Highlight opportunities for improved recovery and the danger of continued underrecovery

2

Open the Books to Deans

Show deans how their departments perform and where there is room for improvement

3

Create Short- and Long-Term F&A Strategies

In collaboration with the cabinet and the deans, interweave F&A recovery into the university's strategic goals

Support ►



Services to Offer

- Conduct 1:1 consultations with deans about improving recovery
- Outline a strategic research vision for each college and highlight the role F&A plays in achieving that vision
- Conduct (bi)annual check-ins with deans on recovery progress
- Promote successful practices from peer institutions on strategic F&A deployment

1

Identifying Opportunities to Recover More

2

Deploying Strategic Dollars Effectively

3

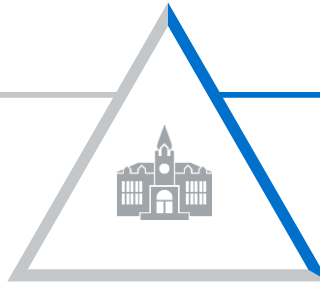
Questions?

A Separation of Ideas and Dollars

Rethinking “F&A Distribution” for Strategic Research Investments

F&A Returns

- Earmarked to offset future research operating costs
- Policies articulate prioritization for varying administrative and facilities costs
- Communication of use is reimbursement for costs already incurred



“Strategic Research Investments”

- Sourced from various unrestricted university funds
- Distributed based on formula of current and desired research activity levels
- Communication of use is advancement of research strategic goals

Final Frontier or Third Rail?

F&A Returns: The Final “Income” Source Not Aligned with Strategy



Decentralized Tuition Return

Universities move towards responsibility/performance-based budgeting models to create more unit-based responsibility for covering costs.



Strategic Fundraising Campaigns

University development efforts increasingly focus on a smaller subset of priorities to fund through targeted, coordinated campaign efforts.

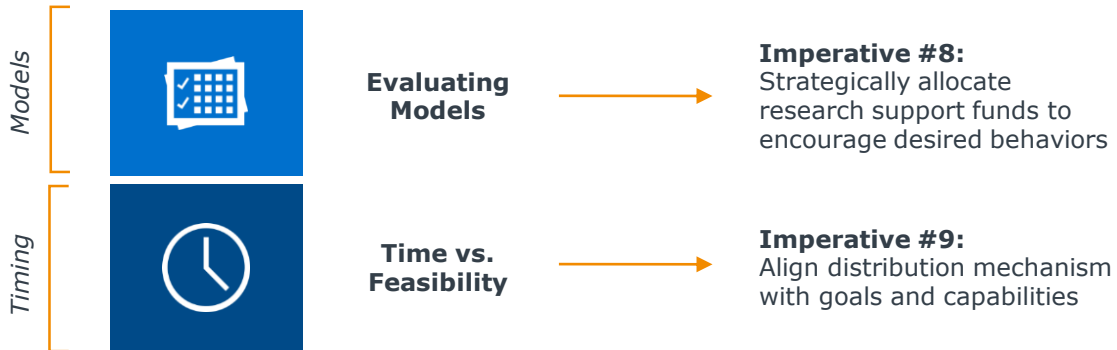


Strategic Research Investments

At current, universities provide strategic research investments based on the proxy of F&A return rates, not areas of desired growth and expansion.

Being Smarter About Incentive Investments

Two Imperatives for Grounding Research Support Policies in Strategy



The Myths and Legends of Research Incentives

How F&A (Allegedly) Solves All Problems and/or Creates More Problems



PIs Get 25%+

Perception:

- Increase research activity
- Encourage PIs to go after bigger grants with higher F&A returns
- Get PIs to stop asking for additional funding

Deans Get 100%

Perception:

- Balance college's immediate funding needs with strategic future investments
- Get deans to stop asking for additional funding



Central Gets 100%

Perception:

- Better fund strategic research initiatives, equipment, and support services
- Develop a reserve for leaner years to support unit activity

Everyone Gets Something

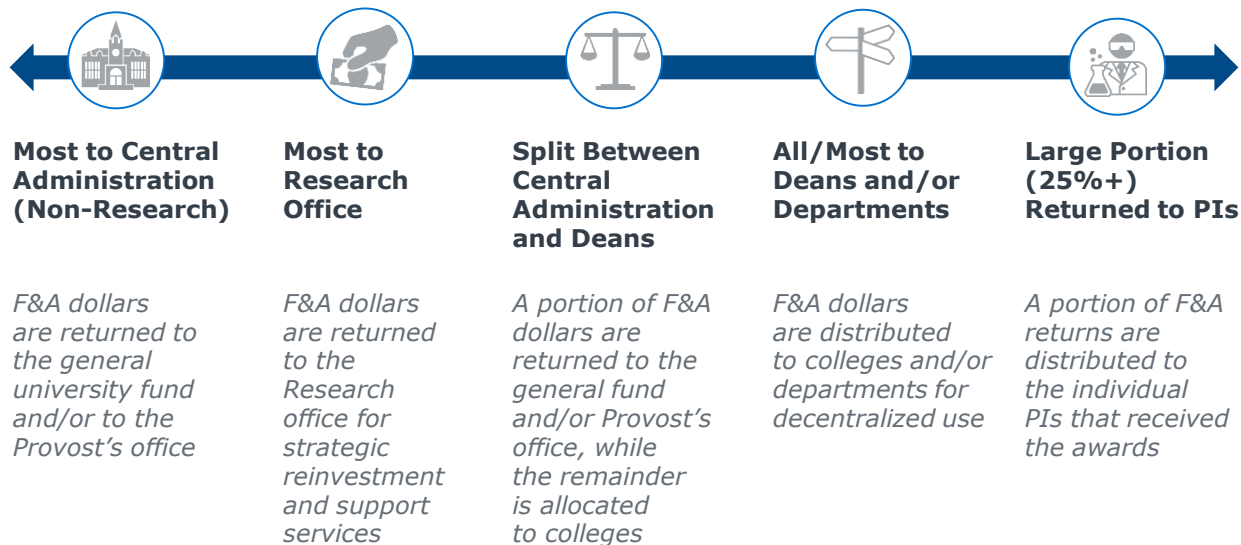
Perception:

- Reward each participant for their role in securing funding
- Give spending discretion to stakeholders who best understand their funding needs
- Prevent recipients from asking for additional funding



Plenty of Distribution Options...

Spectrum of Approaches, Each with Pros and Cons



#1: It All Goes to the Central Pot



**Most to Central
Administration
(Non-Research)**

**Most to
Research
Office**

**Split Between
Central
Administration
and Deans**

**All/Most to
Deans and/or
Departments**

**Large Portion
(25%+)
Returned to PIs**

Pros

- Centrally managed
- Removes pressure on CRO to make allocation decisions
- Complaints directed to central administrators (in theory)
- Better alignment with university strategy

Cons

- Limits CRO control and ability to leverage funds to advance research enterprise
- Research may not be top priority for reinvestment
- More likely to be used to cover budget deficits
- Dollars are often distributed multiple times, making tracking difficult

#2: A CRO's Dream (or Nightmare?)



Pros

- Allows for significant reinvestment in research enterprise
- Provides CRO with powerful lever to make targeted investments and incentivize faculty to buy into strategic vision

Cons

- Pressure on CRO to make decisions about (and be accountable for) allocation and use
- Faculty complaints directed at research office

#3: Sharing, but not with the Research Office



Pros

- Removes pressure on CRO to make allocation decisions
- Complaints directed to central administrators and deans (in theory)

Cons

- Limits CRO control and ability to leverage funds to advance research enterprise
- Research may not be top priority for investment
- Deans lack experience budgeting and managing F&A dollars
- Difficult for research office to track use

#4: Units Brought It In, Units Get It Back



Pros

- Removes pressure on CRO to make allocation decisions
- Complaints directed to deans and department chairs (in theory)
- Provides incentive since money flows back to most productive units

Cons

- Limits CRO control and ability to leverage funds to advance research enterprise
- Deans lack experience budgeting and managing F&A dollars
- Inconsistent distribution within colleges and/or departments frustrates faculty and perpetuates perceptions of inequality
- Difficult for research office to track use

#5: Making Faculty Happy (and Productive)



Pros

- Provides direct incentive to faculty to conduct research and win grants
- Can reduce faculty critiques of F&A
- Can reduce faculty requests for additional funding (in theory)
- Gives PIs flexible source of funding to cover costs that couldn't be charged to their grants (e.g., conference travel)

Cons

- Overall, provides a minimal incentive—some return is good but too much isn't efficient
- Limits CRO control and ability to leverage funds to advance research enterprise and get buy-in for strategic vision
- Typically still administered through deans and/or department chairs, who lack experience budgeting and managing F&A dollars
- Difficult for research office to track use

But Does It Meet Our Needs?

Critical Considerations When Evaluating Different Distribution Models



Does It “Offset” Research Costs?

Incentive dollars should support the underlying costs of the research enterprise not fully funded by F&A



Does It Align Dollars with Research Strategy?

Incentive dollars should be distributed to the areas most important for growing desired research strengths



Does It Incentivize Faculty?

Especially in the absence of other financial awards and rewards, incentive dollars should acknowledge faculty success



Does It Align with Institutional Budget and Strategy?

Beyond strategy, incentive dollars can help lessen the blow of unforeseen funding changes



Four Critical Considerations, Two Underlying Questions

- What are our research goals as an institution?
- How can our strategic research funds help us achieve them?

A Simple Maturity Curve for Distribution Models



Increasing Activity

Incentive policy prioritizes **funding for active investigators**, whether through central or unit budget.

Low activity and expenditures

Strategic Allocation

Incentive policy prioritizes **available central funds for strategic research initiatives** aimed at increasing multidisciplinary and larger-scale research across campus. These dollars reside with the Provost's office and/or Research office.

Growing activity and expenditures

Unit-Level Empowerment

Incentive policy prioritizes **unit-level strategic allocation of dollars**. This allows deans and department chairs to determine the right balance between further distributing dollars to PIs versus allocating funds to uncovered research costs (e.g., facilities, startup packages, seed funding).

This model also assumes that an amount of money will remain available to the Research office for continued investment in strategic initiatives.

High activity and expenditures

Imperative #8: Next Steps

Ten Critical Points in the Change Management Process



Familiarize yourself with all the options



Forecast implications of changing models



Solicit feedback from key internal stakeholders



Build allies and garner buy-in



Develop implementation timeline and communication strategy

1

4

5

8

9

2

3

6

7

10



Collect allocation and spending data



Assess current model using four critical considerations



Identify key leaders and stakeholders you need to convince



Craft your argument by anticipating questions and concerns



Establish formal review process and set precedent for future changes

Talk Is Cheap, Money Speaks

Distribution Mechanism Fuels Frustration

Common Stakeholder Complaints About Time Lag in Distribution

"I finished that research project months ago and yet I still haven't even seen my F&A returns.
How long do I have to wait?"

"How am I supposed to **cover unallowable costs like conference travel** when I haven't gotten my F&A returns?"

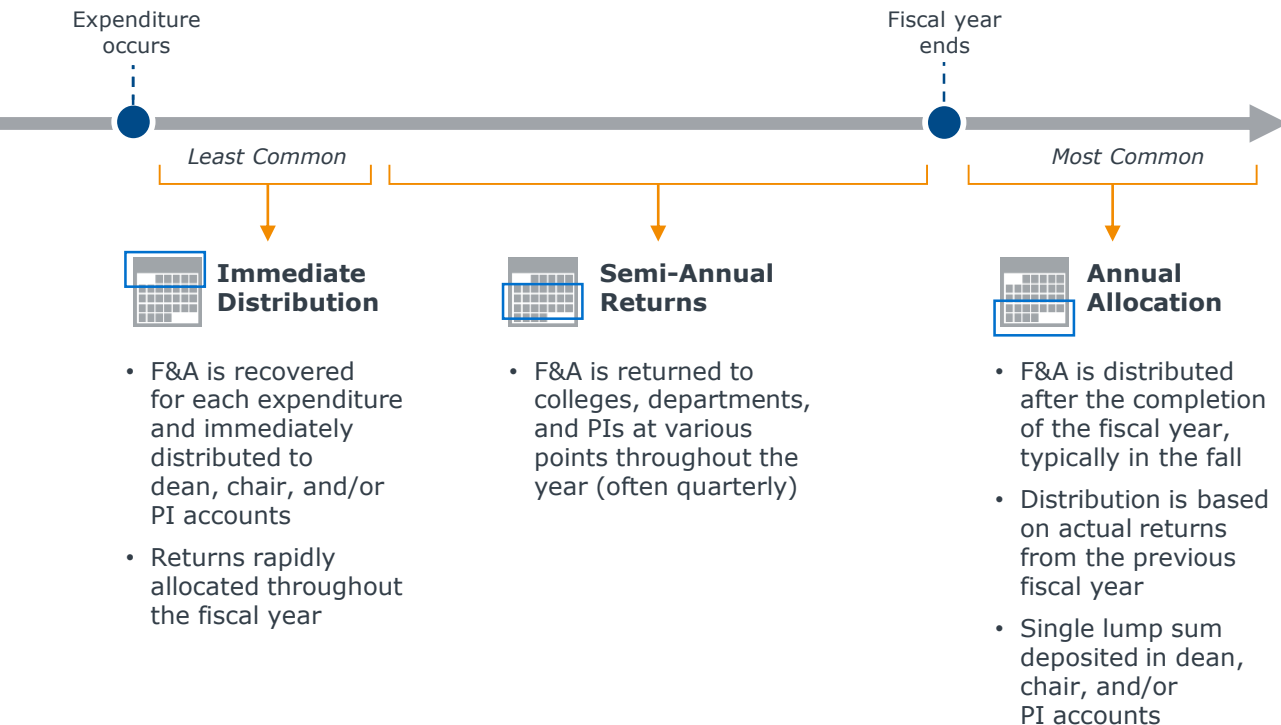
"You keep saying we're going to get some F&A back but it's been a year and I haven't gotten anything—this was **just another lie** on the part of the administration."



"I know my F&A returns are **sitting in my dean's account**, but they don't seem to be in any hurry to transfer them to my account."

Doling Out the Dollars

Spectrum of Distribution Timelines



Two Ends of the Spectrum

No "Correct" Timing for Distribution

Immediate Distribution



Advantages

- ✓ Eliminates lag between behavior and corresponding incentive
- ✓ Provides PIs with recurring dollars throughout the year
- ✓ Can incentivize stakeholders to spend returns in timely manner
- ✓ May reduce requests for funding from central office

Disadvantages

- ✗ Dollars still may not be allocated quickly at unit level
- ✗ Requires costly and time consuming changes (especially to fiscal system)
- ✗ Deans/departments have to forecast what they will recoup
- ✗ No incentive for long-term budget planning
- ✗ Adjustments to grants during the year can result in incorrect distribution

Annual Allocation



- ✓ Guaranteed not to over- or under-distribute (since based on actual recovery from previous fiscal year)
- ✓ Departments always accurately know their budget for the next fiscal year
- ✓ Less ongoing admin burden for central office

- ✗ Stakeholder frustration
- ✗ Lag time between behavior and corresponding incentive
- ✗ PIs don't receive dollars throughout the course of project and therefore may request more money from central office

Imperative #9: Next Steps

Evaluate Current Mechanism, Weigh Potential Options

Three Initial Steps for CROs

- 1 Make sure you have a clear policy statement explaining current mechanism and timeline
- 2 Task a deputy or team with reviewing your current distribution mechanism (and those of your peers)
- 3 Collect feedback from internal stakeholders (both administrators and unit recipients)

Questions to Consider



Is your current approach **aligned** with goals and stakeholder needs?



Are your policies explaining the distribution mechanism and timeline **clear and transparent**?



Are **stakeholders satisfied** with the current mechanism? If not, what changes do they want?



How much **time and investment** would it take to change the current distribution mechanism?



Do you have a policy for **how and when returned dollars must be spent** (and what happens if they aren't used in that time)?

Any Questions?



Contact Information



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Evaluating Today's Session



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