

Highlights of GAO-10-937, a report to congressional committees

Why GAO Did This Study

In fiscal year 2007, the majority of the Department of Defense's (DOD) basic research obligations were provided to higher education institutions. DOD reimburses these institutions for both direct and indirect costs for research. Two federal agencies, DOD and the Department of Health and Human Services (HHS), negotiate indirect cost rates used to reimburse higher education institutions for indirect costs on federally funded research awards, including DOD awards.

GAO was asked to examine the following issues related to higher education institutions performing basic research for DOD: (1) the variation in proposed and negotiated indirect cost rates and factors that may contribute to variations; (2) how and to what extent the administrative cap and the DOD basic research cap limit reimbursement of indirect costs; and (3) the methods DOD uses for overseeing compliance with indirect cost reimbursement for grants. GAO surveyed a generalizable sample of higher education institutions performing basic research for DOD; reviewed agency guidance and policies; and interviewed officials from federal agencies, independent public accounting firms, and higher education institutions.

What GAO Recommends

GAO is making recommendations to address consistency in rate-setting and to improve oversight of indirect cost reimbursement. The agencies generally agreed with these recommendations.

[View GAO-10-937 or key components.](#)
 For more information, contact John Needham at (202) 512-4841 or NeedhamJK1@gao.gov.

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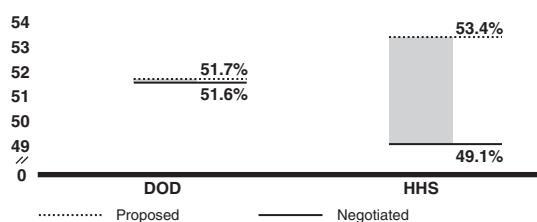
UNIVERSITY RESEARCH

Policies for the Reimbursement of Indirect Costs Need to be Updated

What GAO Found

GAO identified wide variation in indirect cost rates at schools receiving DOD funding in fiscal year 2007, which may be related to a number of factors. For example, the average difference between a school's proposed and its negotiated rate was much larger for schools with HHS as the cognizant rate-setting agency than for those with DOD (see figure below), in part due to the agencies' differing approaches to negotiation. GAO also found that schools receiving a 1.3 percent add-on to their rate to assist with the cost of utilities both proposed and negotiated higher rates than those without the adjustment. Contrary to guidance to periodically review school eligibility, the fixed list of schools eligible to receive this add-on has not been revisited since established in 1998.

Estimated Mean Proposed and Negotiated Rates at the Two Cognizant Rate-Setting Agencies
 Mean fiscal year 2007 rate



The cap on the administrative portion of the indirect cost rate limited fiscal year 2007 reimbursement for about 83 percent of schools. The cap was established nearly 20 years ago with the intent of limiting federal reimbursement for schools' administrative costs, and OMB has not reexamined this cap since its implementation. We estimate the DOD basic research cap might have limited fiscal year 2008 reimbursement for some awards at about 22 percent of schools, but the limitation depends on the types of costs included in each individual award and is difficult to determine up front on a schoolwide basis until total costs for each award are tallied.

GAO identified weaknesses in the three methods DOD says it uses to oversee that indirect costs for research grants are reimbursed appropriately: the single audit, the closeout process, and audits by DOD's Defense Contract Audit Agency or by cognizant agencies for audit. At least one of the three methods was used at most of the schools we reviewed, but four schools were not covered by any of the methods, indicating a gap in coverage. In our discussions with cognizant agencies for audit, we learned that recent audits of research awards to schools at HHS have led to some significant findings of improper billings of indirect costs. Inconsistencies in rate-setting and reimbursement processes lead to perceived and actual differences in the treatment of schools. Moreover, because of the weaknesses in its oversight methods, DOD lacks assurance that it is reimbursing indirect costs appropriately.