

# GAO Highlights

Highlights of [GAO-13-760](#), a report to the Ranking Member, Committee on the Budget, U.S. Senate

## Why GAO Did This Study

NIH reimburses universities for both the direct and indirect costs of conducting research. Indirect costs cover general facility and administrative expenses, and are paid as a percentage, or rate, of certain direct costs of awarded grants. GAO was asked to look at the indirect costs of NIH-funded research. This report (1) identifies changes in reimbursements by NIH to universities for indirect costs of NIH-funded research; and (2) examines key factors affecting NIH reimbursement to universities for indirect costs and what assessment NIH has done to address any impact of these costs on NIH's research mission. GAO analyzed NIH data and interviewed officials at NIH, six universities, and other stakeholders. Universities were selected based on the number of grants and amount of funding received from NIH and their negotiated indirect cost rates.

## What GAO Recommends

GAO recommends that NIH assess the impact of growth in indirect costs on its mission, including, as necessary, planning for how to deal with potential future increases in indirect costs that could limit the amount of funding available for total research. HHS agreed with GAO's recommendation but disagreed with a number of GAO's conclusions, stating that risk to NIH's mission is low because indirect costs remain a stable percentage of NIH's budget. Due to indications that indirect costs for universities may increase in the future, GAO believes that continually assessing and planning for the impact of growth over the long term is important.

View [GAO-13-760](#). For more information, contact Linda T. Kohn at (202) 512-7114 or [kohnl@gao.gov](mailto:kohnl@gao.gov).

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## BIOMEDICAL RESEARCH

### NIH Should Assess the Impact of Growth in Indirect Costs on Its Mission

## What GAO Found

From fiscal year 2002 to fiscal year 2012, indirect cost reimbursements from the National Institutes of Health (NIH) to universities increased slightly faster than those for direct costs, but increased notably faster during some periods. Specifically, from fiscal years 2002 to 2012, indirect costs increased 28.1 percent while direct costs increased 27.0 percent. However, for the fiscal years 2003 to 2012, indirect costs increased notably faster than direct costs, at 16.9 percent and 11.7 percent, respectively. In more recent years, annual changes were generally small but consistent. This increase occurred during a time when growth in NIH's budget for extramural research slowed to 5 percent from fiscal years 2008 to 2012, compared to about 21 percent from fiscal years 2002 to 2007. In fiscal year 2012, about 10 percent of the universities (50 out of about 500) receiving NIH extramural research funding received almost 70 percent of all indirect cost reimbursement provided to universities. Higher indirect cost rates tended to be associated with universities located in high-cost-of-living areas and privately owned universities.

Stakeholders—university officials, Department of Health and Human Services (HHS) officials, and others—whom GAO interviewed identified several key factors that may lead to increases in reimbursements for indirect costs provided to universities. Some stakeholders reported that reimbursements for one part of indirect costs—the facilities component—help to support research innovation by providing funding for the development and maintenance of state-of-the-art research facilities. However, officials in HHS's Division of Cost Allocation, which is responsible for determining indirect cost rates, stated that the uncapped facilities component of the indirect cost rate provides universities with few, if any, incentives for controlling these costs. For example, these officials noted that there is no limit on reimbursement for interest costs under the facilities component. This may encourage universities to borrow money to build new facilities, which could lead to building more new space than is necessary for research. Some stakeholders also noted that a 26 percent cap on the reimbursement rate for administrative costs—a second component of indirect costs—helps to control reimbursements for those costs; however, they reported it does not account for the recent increases in costs, such as those for regulatory reporting requirements and changing research needs that require advanced medical and information technologies that are considered administrative.

The combination of these trends and factors results in indirect costs growing at a faster rate than direct costs. Indirect costs are one-fifth of NIH's total budget—or \$6.2 billion in fiscal year 2012—but NIH officials reported that they have not taken steps to assess the significance of future indirect cost growth for universities, or planned for options that might address these trends or factors—in part because they view increases in indirect costs as having been modest. However, factors suggest that indirect costs could increase more quickly in the future. Over the long term, they could lead to a reduction in the number of research grants that could be funded, thus potentially affecting scientific discoveries and knowledge.