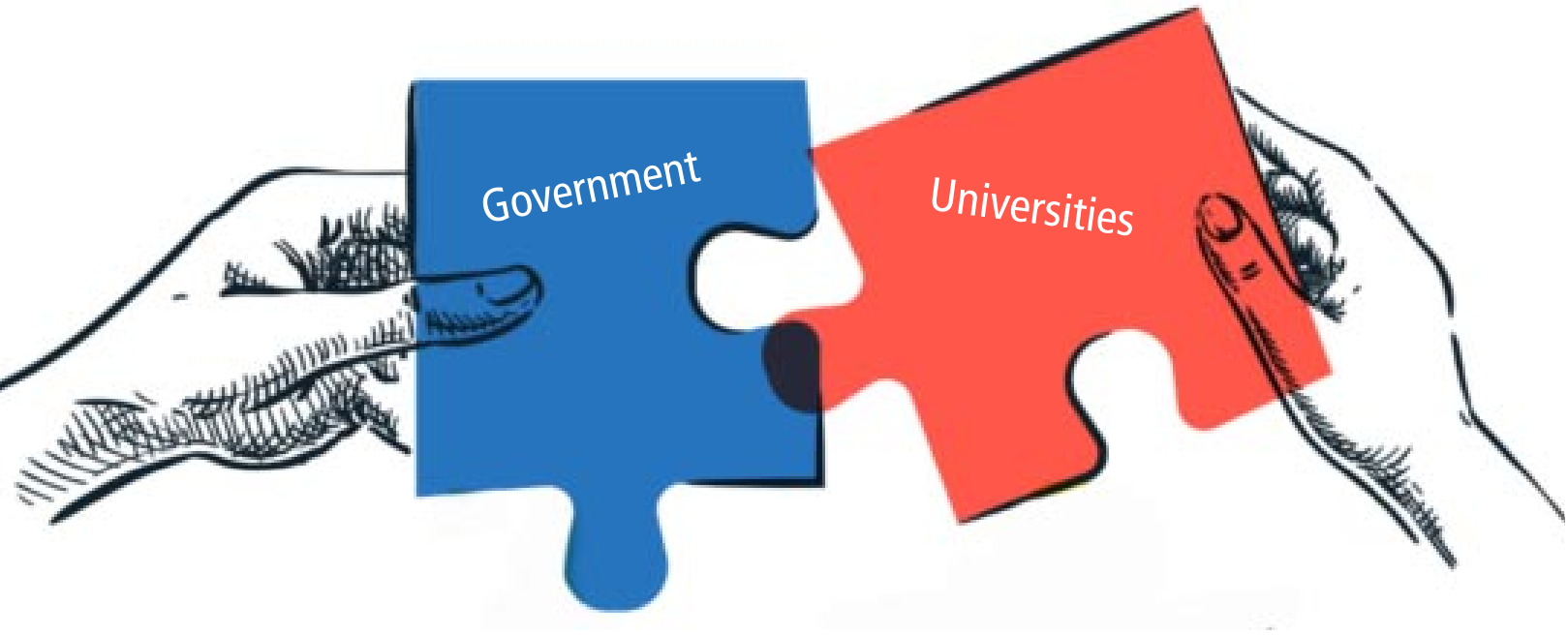
The Financial Accountability in Research (FAIR) Model:

A New Approach to the Government-Researcher Partnership for American Leadership in Research and Innovation



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1. Introduction

Since World War II, US Federal funding for research grants has been bifurcated into direct and indirect costs, also known as facilities and administrative (F&A) costs.[i] This model applies to institutions of higher education (IHEs), independent research institutes (IRIs), and research hospitals and medical centers. Although the direct/indirect cost structure is effective, it is not without limitations and critics. Indeed, concerns began to be raised as early as 1946 and continue to this day (e.g., US General Accounting Office 1992, 1995; US Government Accountability Office 2010, 2013, 2017). The effectiveness of the F&A system now in place often is overshadowed by several well-known issues which, in combination, make the model difficult to understand and appear somewhat opaque to the public.

Major government concerns center around a perceived lack of transparency and accountability in the use of F&A funds. Another concern exists that some F&A rates, especially at large and elite institutions, are excessively high, suggesting that such institutions are recovering far more F&A than is appropriate. In addition, the F&A rate is applied equally across types of research, except for certain activities,[ii] which creates the impression that certain types of research are charging excessively high F&A rates relative to their actual performance costs. Finally, confusion persists in differentiating between the F&A rate and the fraction of a research budget comprising F&A costs.

2. The Driver of Change

In recently issuing F&A caps for several federal research funding agencies, the government made clear its intention to provide fewer federal dollars for indirect costs, with the difference between actual costs and those paid by the government to be made up by industry, philanthropy, and research institutional resources. These and other actions, coupled with unmistakable messaging from congressional leaders, have made clear that the current F&A model for indirect costs is no longer viable and will be replaced. The research community responded by organizing a collaborative effort, working

with government, to develop a durable model for federal research funding that addresses known limitations of the current F&A approach. The overarching goal is to create a new funding model that helps ensure a robust research enterprise and maintains American global leadership in research and innovation.

3. Creation of the Joint Associations Group (JAG) on Indirect Costs

To achieve the goal noted above, the Joint Associations Group (JAG) on Indirect Costs was formed. JAG comprises nine non-profit associations representing all sizes and types of IHEs, IRIs, and academic hospitals and medical centers, as well as the Science Philanthropy Alliance. To develop the model, JAG established a 26-member subject matter expert (SME) team of volunteers comprising experts in indirect costs, research policy, finance and cost accounting, research administration, communication, government relations, and research operations. Unlike previous efforts, the SME team included representatives from private industry, philanthropic research funders, IRIs, hospitals, and former senior government officials.

4. Description and Benefits of the FAIR Model

The FAIR model shifts from historical practices—where certain institutional costs are grouped into generalized reimbursement categories—to an approach that explicitly defines and budgets for the services and infrastructure that make research possible. The model deliberately moves away from outdated "direct and indirect cost" terminology, replacing them with cost categories that describe the actual resources needed to conduct research. By aligning costs to the type of research being performed, the FAIR model brings unprecedented clarity to researchers, institutions, federal sponsors, and taxpayers alike.

The FAIR model also addresses the increasing complexity of research portfolios by allowing cost recovery to vary with actual project requirements specific to their geographic locations. Because costs are tied to actual project requirements, they are specific to the costs of performance at the specific institution and area in which they are located.

With the FAIR model, institutions will no longer prepare and negotiate an F&A rate proposal. Research costs are organized into three standardized categories (Figure 1). It is important to note that the FAIR model is not simply a renaming or reshuffling of components within the existing F&A model, but rather is a complete restructuring of the entire cost framework.

1. **Research Performance Costs (RPC):** RPC refers to all project-specific costs that are explicitly managed by the researcher(s) and are necessary to carry out the goals of a sponsored project. These are the most familiar and visible costs in project budgeting and are typically under the control of the Principal Investigator (PI). Examples include personnel salaries, laboratory supplies, and project-related travel.
2. **Essential Research Performance Support (ERPS):** ERPS encompasses institutional services and infrastructure that enable the execution of sponsored research projects. Unlike RPC, which are managed directly by the researcher(s), ERPS costs represent institutional support essential for the compliant and effective conduct of science. ERPS consists of four elements.
   - Regulatory Compliance (RC), which are project-specific costs necessary to meet institutional and sponsor-imposed compliance requirements, including Institutional Review Boards (IRBs), Institutional Animal Care and Use Committees (IACUCs), biosafety committees, export control, radiation safety, clinical trial monitoring, project-specific research security policies, and other research-related regulations.
   - Award, Oversight, and Reporting (AMOR), which are project-specific costs that ensure compliant execution and financial stewardship of awarded funds. This includes financial management, progress reporting, and award closeout.
   - Essential Research Performance Facilities (ERPF), which are project-specific physical infrastructure costs required to perform the specific research project, including research space, utilities, maintenance, operations, building depreciation, leases, and other facility expenses directly supporting a given research project.
   - Research Information and Data Services (RIDS), which are project-specific costs including institutionally-provided access to digital and physical research resources, infrastructure, consultative services, and repositories that support the information needs of research projects.
3. **General Research Operations (GRO):** GRO includes institution-wide infrastructure and services that support the broader research enterprise but are not allocable to individual sponsored projects. These activities are necessary to maintain overall institutional capacity for research and to enable the successful conduct of projects across departments and disciplines.

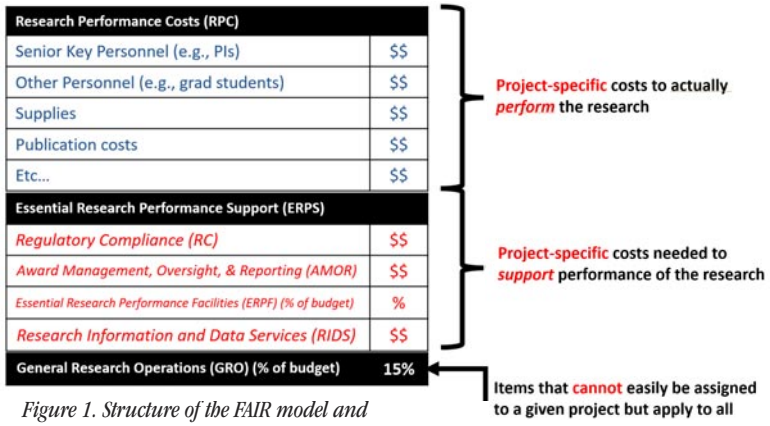

Figure 1. Structure of the FAIR model and Detailed Option.

Several important points are noteworthy about the FAIR model. First, the F&A concept has been eliminated, and all costs are explicitly accounted for in the budget. In two categories, costs are expressed as a percentage of the total budget. In ERPF, the percentage model avoids requiring a detailed square footage analysis of all rooms and buildings used for research yet is fully accountable. Additionally, GRO is represented as a fixed 15 percent of a total research project budget for all organizations (Figure 1). This value represents an average across all institutions that was determined by analysis of publicly available cost recovery data.

Finally, the FAIR model addresses one of the most important concerns of some in Congress, namely, that funds reimbursed by the government for F&A costs are being improperly used by some organizations it funds. By tracking federal reimbursements into specific and allowable categories from which the funds were expended by an organization as research took place, the FAIR model ensures government funds are used as intended.

5. FAIR Model Options

To accommodate this spectrum of institutions and research types, the FAIR model includes two implementation options. These options address one of the central challenges in reforming research budgeting: creating a system that is both universally applicable and sufficiently flexible to reflect institutional differences in scale, structure, location, and administrative capacity.

- The **Simple Option** uses fixed percentages of the total project budget for a subset of the FAIR cost categories (i.e., 10% for ERPS, 15% for GRO).
- The **Detailed Option** allows institutions to calculate each ERPS element individually, while GRO remains fixed at 15%.

The Simple Option (Figure 2), which in concept is similar to the standard deduction option of a personal income tax form, enables institutions to apply the FAIR model with the use of mostly existing administrative systems. With it, the ERPF and RIDS elements are not explicitly costed in the budget but rather are included as a flat 10 percent of the total budget. Consequently, institutions utilizing the Simple Option (see below) would have 25 percent of the total budget of a given project allocated to support costs, with the ability to still include RC and AMOR costs as explicit charges.

A comparison of the Simple Option (Figure 2) to the Detailed Option (Figure 1), the latter of which is analogous to the itemized version of a personal income tax form, shows that the Detailed Option provides greater specificity and allows institutions to align ERPS charges with actual support services provided on a project-by-project basis. This approach is most appropriate for institutions with established costing infrastructure, a diverse set of project types, or a desire for more accurate attribution of support costs. Each institution would, based upon analysis of its own data, select which option is most appropriate and apply it to all proposals.

A final and very important question about the FAIR model concerns whether it saves the government (taxpayers) money. The JAG goal was to develop a costing model that explicitly accounts for the actual costs of research. Because the FAIR model does just that, it enables a conversation about how much, and in what categories, funding for research should be apportioned among the government and other sources. The responsibility for determining this distribution rests with Congress and the executive branch, though hopefully with input from the research community.

6. Summary and Implementation of the FAIR Model

In summary, the FAIR model eliminates the F&A structure entirely, applies to all organized research, increases accountability and transparency by explicitly accounting for the actual costs for performing and supporting research, is expected to apply equally to all agencies, accommodates all types and sizes of research organizations which operate under 2CFR200 (Unform Guidance), automatically accounts for geographic and institutional cost differentials, aligns project costs with the type of work being performed, funds federally-mandated research compliance, addresses the reimbursement issue, and has a structure similar to that utilized by private foundations which fund research.

From the outset, JAG has promoted the idea that the FAIR model be placed in law, thereby providing durability and stability to the research enterprise. Without question, time and effort will be required to implement the FAIR model, which is why JAG is proposing a two-year implementation period. The FAIR model is recommended to be applied uniformly, by all federal agencies, to research assistance awards without arbitrary and capricious changes that damage the government-researcher partnership. As such, changes to the Uniform Guidance will be necessary and can be developed during the implementation period.

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Research Performance Costs (RPC)	
Senior Key Personnel (e.g., PIs)	$$
Other Personnel (e.g., grad students)	$$
Supplies	$$
Publication costs	$$
Etc...	$$
Essential Research Performance Support (ERPS)	
Regulatory Costs (RC)	$$
Award Monitoring, Oversight, and Reporting (AMOR)	$$
General Research Operations (GRO) (% of budget)	15%

10% of total Budget

Figure 2. FAIR model Simple Option (compare to the Detailed Option in Figure 1).

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[i] The term facilities and administrative (F&A) costs came into existence in the May 1996 revision of "Cost Principles for Higher Education Institutions" (OMB Circular A-21) to more accurately describe the components of what had previously and synonymously been known as indirect costs or overhead.

[ii] Exceptions include, for IHEs, research performed off campus, which involves applying only the administrative component of the F&A rate, as well as other sponsored activities (OSA) and educational activities. Many institutions apply their uncapped F&A rate to private company sponsors.

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