

VETERANS HEALTH ADMINISTRATION  
Indirect Cost Rate Calculation & Rates  
Applicable to Research Projects  
Based on Fiscal Year 2000 Costs

**INTRODUCTION**

The Veterans Health Administration (VHA), a major component of the Department of Veterans Affairs, performs research at more than eighty-five medical centers throughout the nation. This research is funded through separate annual Congressional appropriations for Medical Care and for Research, from grants and other awards from Federal agencies, principally the National Institutes of Health and the Department of Defense, and from other sources.

Indirect cost rates are calculated herein for each Medical Center, for each Veterans Integrated Services Network (VISN), and for the VHA as an entity.

There is scant Government-wide guidance on the costing of research or other programs performed by Federal agencies. There is guidance for the costing of research and other functions conducted by state and local governments, colleges and universities, other nonprofit organizations and commercial organizations. That guidance is found in the Federal cost principals issued by the Office of Management and Budget and the Federal Acquisition Regulations (FAR) issued by the General Services Administration - Circulars A-87, A-21, A-110, and FAR Part 31, respectively. There is also guidance in the VA Cost Accounting Handbook and the guidelines contained in Provision 6.d.1 of OMB Circular A-25 (Revised) concerning fees assessed for Government services or use of Government goods or resources. The methodology used to calculate the rates contained herein conforms with the costing concepts contained in these documents. There is one exception: the calculation does not include depreciation/use allowances on buildings and equipment used in the performance of the research as permitted in all of the Circulars and in the FAR nor a rate of return on these assets as recognized in the FAR and recommended under Circular A-25. The critical concept contained in all of these documents is that of benefit; a cost must benefit a project for it to be recognized as a charge against it. All the costs included in the rate calculations meet those criteria.

**THE RATE CALCULATION**

On-site and off-site indirect cost rates have been calculated for each Medical Center, for each Veterans Integrated Services Network (VISN), and for the VHA as an entity. Rates have also been calculated for NIH sponsored projects conducted on site but largely administered by universities affiliated with the medical centers. The rates are calculated as a percentage of the total direct costs applicable to the research activities.

The on-site NIH rates are a recognition that certain projects, while conducted at VA facilities, are largely under the administrative direction of the affiliated universities and hence benefit from a lesser amount of medical center administrative costs reflected in Schedule II.

The medical center administrative support costs are apportioned based on total direct costs, the facilities costs are apportioned based on space usage.

Total direct research costs are those costs directly associated with research projects and funded thru the Research appropriation plus 20% of the salaries of the Medical Care professional Staff. The 20% factor reflects the research related salaries of medical professionals who are paid through the Medical Care appropriation.

Statement of Henry G. Kirschenmann, Jr.  
Before the Subcommittee on Oversight and Investigations  
Committee on Veterans Affairs  
U.S. House of Representatives  
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I was engaged by the Veterans Health Administration to identify the indirect costs associated with its research function and to calculate the indirect cost rates that would apply to its research grants. More specifically, I calculated indirect costs especially associated with National Institutes of Health (NIH) grants. I submitted my calculations in May 2002. I am here to respond to questions which you may have about the rationale behind the rates or the calculation itself.

In identifying the research costs and calculating the rates, I followed the costing concepts and guidance contained in the Cost Accounting Handbook of the Department of Veterans Affairs and the several documents issued by the Office of Management and Budget, specifically, a) Statement Number 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, issued by the Federal Financial Accounting Standards Board, b) the Circulars A-21, A-122, A-87, and c) The Federal Acquisition Regulations (FAR). The Circulars govern the costing of research and other Federally supported programs at universities, other non-profit institutions, and state and local governments, respectively. The Federal Acquisition Regulations govern the costing of federally supported projects conducted by commercial organizations. The guidance contained in these publications conforms to Generally Accepted Accounting Principles and are consistent with each other. In my opinion application of the guidance contained in those documents results in indirect cost rates that reasonably reflect the costs of performing research. I also consulted OMB Circular A-25, which

establishes Federal policy regarding user charges to be assessed by Government agencies for the use or sale of their services or goods. The guidance for determining the costs of such services and goods is consistent with the guidance in the documents I have just cited. Again, the rates I calculated conform to the costing and charging concepts contained in that Circular.

The critical concept contained in all of these documents is that of benefit. That is, an activity must provide benefit to a project for its associated costs to be recognized as a charge against it. All the costs included in my rate calculations meet those criteria.

The methodology I followed in identifying the indirect costs related to the research conducted by the Veterans Health Administration and to calculate the rates conform to the costing concepts contained in these cited documents with two exceptions. The rates I have calculated do not include amounts for the depreciation or a use allowance for VHA buildings and equipment used in the conduct of the research as provided for in all the cited documents or a rate of return factor on these assets as provided for in the FAR and recommended in Circular A-25. Additionally, There were other costs, which might be argued to benefit the research that the Veterans Health Administration opted not to include in the interest of conservatism. Thus, it is my opinion that the calculated rates themselves are conservative.

## QUESTIONS

1 In your opinion are the so called indirect costs incurred by the V.H.A. and other research performing entities, and reflected in their indirect cot rates, real and necessary costs as opposed to profit, for example?

They are real costs and necessary for effective management and operations of organizations. This is a universally accepted fact.

2. In your opinion is there any fundamental conceptual difference in determining the costs associated with grants as opposed to contracts? Would an indirect cost rate calculated under the documents you cited apply to contracts as well a to grants?

The concepts are the same and the documents I referenced make no distinction. Indeed, the rates calculated under the several Circulars I cited commonly apply to contracts as well as grants.

3. To your knowledge, does NIH recognize and pay indirect costs on its contracts awarded to Federal agencies?

I believe NIH does, yes.

4. From your knowledge does NIH pay indirect costs to universities, non-profit entities, state and local governments, and commercial organizations, which conduct research under NIH grants and contracts?

Yes. With some few exceptions, it pays at the rates calculated in conformance with the Circulars and FAR I cited.