

### ***PI Article – Suddenly, Indirect Costs are Interesting!***

Twenty years ago, I was hired at Northwestern University to amongst other things prepare the university's indirect cost (F&A rate) proposal. For all these years that I have been involved in research administration and cost accounting, it has been a challenge to find people who were interested in talking shop in this field. It used to be that folks didn't find it all that exciting but suddenly, indirect costs are interesting!

There have been myriad pieces written over time and especially in the last couple of weeks on the importance of indirect costs and how necessary they are to the business of doing research. For anyone who is interested in finding those, you can easily search for them online. But let's start with understanding indirect costs at Georgia Tech. On our campus, the vast majority of research work is taking place indoors and inside of buildings. Conducting that work would be difficult if you don't have a floor, walls, and a ceiling. It would also be hard to do research without electricity, gas, HVAC systems, water, etc. Utilities are objectively important, and we can even think about our own households when the power goes out. A refrigerator has only one job and it can't do that job with no electricity.

When I (try to) explain to my family and friends about what I do, I explain that my office, Grants and Contracts, supports thousands of research awards. But our 30 person staff could not realistically charge our individual time directly to any one award. However, without us setting up awards in Workday, no charges can hit sponsored awards. And without those awards in place, we can't invoice our sponsors. And if we didn't invoice our sponsors, GT would miss out on collections of around \$500 million per year.

The research operation requires the incurrence of these facilities and administrative costs because without them, the machine stops running. These costs continue to be questioned by external parties, but one question is why. I imagine it is because the mechanics are hard to explain, somewhat hard to understand, and often boring. But much like electricity, we tend not to appreciate its value until our power goes out. And without workers on the ground and administrative staff supporting them, that power is never coming back on.

Another question that often comes up is why can't endowments be used to cover the costs? The issue with endowments is that the majority of endowment funds have specified purposes and cannot be used for anything other than the intent of their donors. The next successful fundraising campaign devoted solely to covering indirect costs supporting research will likely be the first.

Outside of research administration, where else do we pay indirect costs? One way to answer that is: everywhere you pay for anything. A good example of indirect costs is going to a mechanic for a car repair. Imagine needing your car repaired but refusing to pay for indirect costs. Together, you and a mechanic would stand outside and look at your car together. Anything he/she could fix with their bare hands, they would fix. But there would be no building, no tools, and no lights. So, you could only go on a rain free day during daylight hours and only in certain months of the year where it wasn't too hot or cold. You couldn't make an appointment, because there won't be anyone to maintain the website or to answer the phone. So, you just have to show up and hope it isn't crowded. But at the very least, you would have a mechanic.

Although..... a mechanic works on so many cars per day/year that really, they are also an indirect cost. And without a payroll department, your mechanic won't get paid.... which means they won't work. So, if only paying direct costs is the goal, you will just have to learn to do every kind of car repair yourself. Or just buy a new car every time there is a problem.

If you have any questions about indirect costs or just like talking about them, please contact Josh Rosenberg at [josh.rosenberg@business.gatech.edu](mailto:josh.rosenberg@business.gatech.edu).