

Complete Policy Title:

**Policy on the Indirect Costs
Associated with Research
Funding from the Private Sector**

Policy Number (if applicable):

Approved by:

**Senate
Board of Governors**

Date of Most Recent Approval:

**March 8, 1995
March 23, 1995**

Date of Original Approval(s):

Supersedes/Amends Policy dated:

Responsible Executive:

**Vice-President (Research
and International Affairs)**

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EXECUTIVE SUMMARY

Research support received by McMaster University from the private sector has increased substantially over the past decade. The University recognizes and supports the expansion of this activity. The Policies covering this activity have been reviewed and changed in the following key areas.

1. The Indirect Cost Recovery formula for private sector contracts is to be calculated at forty percent (40%) of the total project costs.
2. Research grants received from the private sector, including Research Foundations, shall normally have an Indirect Cost Allowance calculated at twelve percent (12%) of the total grant value.

The University will continue to retain 50% of all recoveries of Indirect Costs. Each Faculty shall be responsible for developing a policy for the disbursement of the remaining 50% of such funds to faculty, departments, institutes and the Faculty dean. Each Faculty shall develop a Policy for the disbursement of recovered supervisory fees that is consistent with the University Consulting Policy and is approved by the Research Planning and Priorities Committee.

When research is performed using the facilities of a non-McMaster University Institution, disbursement of the Indirect Cost Allowance will be in accordance with an agreement negotiated between the Faculty and the Institution.

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1. PREAMBLE

Research sponsored by the private sector at McMaster University has grown in importance and presently represents a significant portion of McMaster's total research effort.

This Policy addresses the question of recovering the indirect costs of research associated with research funded by the private sector and foundations. The Policy was developed from the former "Contract Research Policy" (February, 1980) from the "Report of the Ad Hoc Committee to Examine Policies on the Recovery and Distribution of Indirect Costs Associated with Research Contracts and Grants (September, 1993)," chaired by Dr. R.H. McNutt, Dean of Science, and discussions by the deans. The present policy supersedes previous policies either expressed or implied with respect to contracts and grants received from the private sector (including Foundations). The existing policies with respect to contracts with government agencies in which there are agreed upon overhead rates are not affected by this Policy.

2. GUIDELINES FOR DISTINGUISHING GIFTS, RESEARCH GRANTS AND RESEARCH CONTRACTS

2.1 Gifts and Donations

A gift or donation is a transfer of property (cash or in-kind) made without expectation of return that does not carry obligations as to the transfer of results. Its beneficiary is an institution (university, hospital) or one of its units (faculty, department, etc.), which usually initiates a program or project supported by the gift. Gifts are made to the University through the Development Office and are governed by the Policies associated with this Office.

It should be noted that normally monies donated to the University to support research are held for one year before being released for use on a project.

2.2 Research Grants

A research grant is financial support for an individual, or individuals, or a group or a research centre or institute conducting research in a particular subject area or field, without detailed stipulation as to the direction of such research.

The research funded by a grant can be initiated by the individual, or individuals, or group or research centre or institute conducting it, or by the grantor.

The following characteristics are normally also present:

- objectives are defined in a general fashion
- no limitations or restrictions on publication
- no specific transfer of results to the grantor; however, a final report stating the results of the research is usually submitted to the grantor
- payment to the university is generally made in advance of expenditures
- high level of research trainee involvement
- focus on basic knowledge

2.3 Research Contracts

A research contract is an agreement between legal entities, to provide financial support for an investigator or investigators, to conduct research in a particular subject area or field under specific stipulations and conditions.

The research funded by a contract can be initiated by the individual, or individuals, or group or research centre or institute conducting it, or by the contracting organization.

Some or all of the following characteristics are normally also present:

- scope and nature of research is specifically defined
- set time period for the activity
- deliverables are defined
- patent, copyright held by client
- provision for confidentiality of information supplied and created
- prior review of material for publication to check for confidentiality or patent issues
- student involvement is clearly defined
- budget approvals and payment schedules
- acceptance and termination clauses
- other conditions

3. RECOVERY OF THE INDIRECT COSTS OF RESEARCH SPONSORED BY THE PRIVATE SECTOR

The cost of conducting research at a Canadian university such as McMaster includes not only the direct costs of the project but also a range of indirect costs. These indirect costs include many expenditures that are frequently taken for granted but are real costs incurred by the University to supply the infrastructure required to allow a sponsored research project to proceed. Indirect costs include support for the libraries, the provision and maintenance of space, computing and networking support, accounting and other administrative services, Health Physics, Security, etc. Unless the indirect costs of research are recovered in the form of overhead charges to the sponsors of research, they will have to be found within the operating budgets of the University.

It is important when research funding is received from external sources that every effort is made to ensure that whenever possible the full indirect costs are recovered. The Province has recognized the importance of the indirect cost recovery. On Federal Research Council grants, it provides to the University contribution toward the indirect costs of research (currently 12%). On the Centres of Excellence funding and University Research Incentive Fund projects, the indirect cost recovery provided by the Province is higher. It should be noted that these various contributions fall well below the full indirect costs (excluding capital costs and faculty time) which have been estimated by Canadian Association of University Business Offices as at least 50% of direct costs.

This policy requires that a University Indirect Cost Allowance be included in research contract budgets as well as in research grant budgets with private sector agencies and foundations where allowable. For contracts, the policy establishes an indirect cost rate of forty percent (40%) on overall project cost with the exception of travel costs for which a rate of two percent (2%) shall apply.

The indirect cost rate on private sector grants is to be twelve percent (12%) which may be budgeted as an administrative fee or calculated on the direct costs. Exemptions to this policy may be granted only with the agreement of the Faculty Dean and the Vice-

President (Research). No indirect costs will be applied to grants from the federal councils, not-for-profit foundations (e.g., Ontario Heart and Stroke Foundation) or other agencies which specifically preclude these costs. The twelve percent (12%) rate is that currently applied by the Provincial government to the total amount of federal council grants awarded to the University to determine the amount received through the Research Envelope fund. Thus, the indirect cost rate is identical to that provided by the Province. Normally, faculty time on research grants will be a non-recoverable University contribution to which indirect costs will not apply.

4. ADMINISTRATION OF CONTRACT RESEARCH

The administration of the University's Contract Research Policy is carried out by the Office of Research Contracts & Intellectual Property (ORC&IP). Faculty members do not have the authority to make contractual commitments on behalf of the University (see Section 9.).

ORC&IP is responsible for administering the University's responsibilities for research contracts. The supervising faculty member holds the responsibility of managing the project in terms of the stated objectives and work and the expenditure of funds.

ORC&IP is responsible for the final negotiation with external parties of all details to be included in a research contract and will involve the proposed supervising faculty member in cases where such negotiations relate to his or her intended responsibilities for carrying out the work. ORC&IP will examine each research contract on behalf of the University to ensure its completeness and acceptance as to content and consistency with the proposal, and the Director of ORC&IP will have the contract executed in accordance with the Signing Resolution of the Finance Committee (see Section 9.).

5. BUDGET PREPARATION

In addition to indirect costs associated with the cost of equipment and materials used in a research project, Indirect Cost Allowance calculations shall be applied also to direct costs pertaining to all personnel participating in the research including faculty, post-doctoral fellows, students, technical and administrative staff, visitors and subcontracts using the University's facilities.

In the case of a research contract, the cost of faculty time is based on the standard per diem rate (i.e., annual salary divided by 225 days) for the individual(s) participating in the project, plus an applicable percentage for fringe benefits.

The cost of graduate student participation in the research is based on 50% of the individual's cost to the project.

Post-doctoral fellows, visitors and subcontractor direct salary costs are based on income plus fringe benefits, where applicable, derived from University or non-University sources (e.g., stipend, scholarship) or quoted/invoiced prices, respectively.

The indirect cost allowance calculation should include all equipment purchases.

6. DISTRIBUTION OF INDIRECT COST ALLOWANCE

Indirect Cost Allowances received by the University shall be distributed as follows:

- i. 50% to the University's Indirect Cost Allowance account.
- ii. 50% to the investigator/department/institute/faculty. In respect of item (ii), each faculty shall be required to establish its own distribution policy in terms of apportionments provided to the faculty, department and investigator(s).

When research is performed using the facilities of a non-McMaster University Institution, disbursement of the Indirect Cost Allowance will be in accordance with an agreement negotiated between the Faculty and the Institution.

7. PARTICIPATION OF RESEARCH TRAINEES

Provision may be made for research trainees to participate in contract research projects on the approval of the Department Chair, provided their involvement does not conflict with their activities toward degree requirements or professional development. Trainees must be advised beforehand of any limitations of publication, and an appropriate provision for remuneration must be included in the budget of the research proposal. In the case of a graduate student, the Dean of Graduate Studies must approve the proposed participation of the graduate student before the research proposal is submitted and must be informed of the contract when it has been approved.

8. PROPOSAL AUTHORIZATION

The faculty member(s) who will supervise the proposed research contract will sign the proposal to indicate his or her preparedness to assume such responsibilities should the contract be awarded.

The supervising member's Department Chair will sign the proposal to indicate that the proposed project is consistent with the academic research efforts of the department, that space and facilities are available or will be arranged as required and that any and all consulting fees or supervision allowances to be charged to the external party and paid to the supervising faculty member(s) are in accordance with the University Consulting Policy and Faculty specific agreements.

The Faculty Dean will sign the proposal to indicate Faculty concurrence and as recommendation to the University that the proposal be submitted.

The Director of ORC&IP will approve the contract proposal on behalf of the university and forward it to the external party, including such statements as may be appropriate to set out the University's position with respect to proprietary rights, indemnification and such other corporate or legal conditions as may from time to time be warranted.

9. SIGNING AUTHORITY

In respect of research contract commitments signing is vested in the University, with the Director of the Office of Research Contracts & Intellectual Property assigned the responsibility to exercise that authority in accordance with the Resolution of the Board of Governors, dated 22 October, 1992, as follows:

"Contracts not exceeding \$100,000 in value committing the University to conduct specific research projects may be signed on behalf of the University by the Director of Research Services and the Director of the Office of Research Contracts and Intellectual Property. Contracts in excess of this amount are to be executed [by any two of the President, the Provost, the Vice-President (Administration), the Dean and Vice-President (Health Sciences), the Vice-President (Research), the Assistant Vice-President (Finance), the Assistant Vice-President (Information Services and Technology), the Assistant Provost (Student Affairs), the Director of Financial Services, the Director of Investments, the Secretary of the Board of Governors; or one of the aforementioned together with one of, the Chair of the Board of Governors, the Chair of the Finance Committee of the Board, the Dean of Graduate Studies, the Director of Personnel Services, the Director of Purchasing and Mail Services, the Director of Physical Plant, the Director of Planning and Construction; and the seal of the University shall be affixed to any of such instruments as require the same, provided the matter is authorized by a minute of the Board of Governors, or of the Executive Committee, or is covered by an approved budget appropriation.]"

10. PROPRIETARY RIGHTS

In the case of research contracts, the University is prepared to accept some agreed upon limitations of publication of results and a distribution of other proprietary rights provided that these limitations and distributions are set out clearly in the proposal and the resultant contract and have been approved by the appropriate Department Chair and the Faculty Dean.

Contract research activities may result in the disclosure of patentable inventions. Proprietary rights to such inventions will be governed by the terms of the contract. In cases where the University retains a right to such inventions, the University Patent Policy and Procedure and the Policy on Ownership of Student Work will apply.

11. CONSULTING FEES AND SUPERVISORY ALLOWANCES

Each Faculty must develop its own policy on the disbursement policy respecting the distribution of consulting fees and supervisory allowances. These policies should be consistent with the Consulting Policy.

12. RESOLUTION OF DISPUTES

Disputes concerning the application of this policy shall be resolved by the Departmental Chair, Faculty Dean and Vice-President (Research).

13. MODEL RESEARCH BUDGET APPLICATION FOR A PRIVATE SECTOR CONTRACT

The model budget shown below is for a private sector contract. It is included for illustrative purposes only. In this example, the value of the faculty member's time is included as a direct cost to which indirect costs also apply.

MODEL RESEARCH BUDGET APPLICATION		
ITEM	DESCRIPTION	EXPLANATION COST
1.		Personnel:
a)	Faculty - Full Professor [$\$90\text{K}/\text{yr} \div 225 \text{ days}/\text{yr} = \$400/\text{day} \times 21\% \text{ F.B.} = \$484/\text{day}$]	10 days @ \$484/day \$4,840
b)	One Post-doctoral Fellow (100% time)	$\$25\text{K} \times 100\% + 15\% \text{ F.B.}$ \$28,750
c)	One Graduate Student (100% time) [Stipend plus teaching assistantship]	$\$15\text{K} \times 50\% = \$7,500 + 0\% \text{ F.B.}$ \$7,500
d)	One Technical Support (100% time)	$\$35\text{K} \times 100\% + 21\% \text{ F.B.}$ \$42,350 =\$42,350
e)	Visiting Professor (10% time) [Stipend]	$\$50\text{K} \times 10\%$ \$5,000

f)	Subcontractor - As technical Consultant	Quoted price - \$10K \$10,000 Total Personnel Items a,b,c,d,e & f \$98,440
2.	Equipment	Quoted/catalogue price (plus shipping, handling and installation, etc.)\$50,000 Total Equipment \$50,000
3.	Materials & Supplies	(e.g., computing charges maintenance contracts, central facilities charges)\$10,000 Total Supplies \$10,000
4.	Travel	Two scientific meetings \$3,000 Total Travel Costs \$3,000
5.	Total Direct Costs	Personnel, equipment, materials & supplies, travel \$161,440
6.	Indirect Cost Allowance [Private sector contractor, 100% of project conducted on campus]	
i)	Total personnel cost	$\$98,440 \times 40\%$ \$39,376
ii)	Total non-personnel cost (excl travel)	$\$60,000 \times 40\%$ \$24,000
iii)	Total travel cost	$\$3,000 \times 2\%$ \$60
	Total Indirect Cost Allowance	\$63,436
7.	TOTAL PROJECT BUDGET	\$224,876