

## Texas Higher Education Coordinating Board

### Standards and Accounting Methods for Reporting Restricted Research Expenditures for the Research Development Fund

#### ***Authority***

Texas Education Code, Sec. 62.096. VERIFICATION OF ALLOCATION FACTORS.

- (a) For purposes of this subchapter, the coordinating board shall prescribe standards and accounting methods for determining the amount of restricted research funds expended by an eligible institution in a state fiscal year.
- (b) The coordinating board shall convene a committee comprising persons designated by the presidents of eligible institutions to approve the allocations standards and accounting methods established by the coordinating board by October 1, 2003.
- (c) The coordinating board, as soon as practicable in each state fiscal year but no later than November 1, shall provide the comptroller with verified information relating to the amounts of restricted research funds expended by eligible institutions as necessary to determine the apportionment of the research development fund under this subchapter for that fiscal year.
- (d) The coordinating board may audit the appropriate records of an eligible institution to verify information for purposes of this subchapter.
- (e) An eligible institution may appeal the coordinating board's decision regarding the institution's verified information relating to the amounts of restricted research expended to the advisory committee for final determination of eligibility.

Added by Acts 2003, 78th Leg., ch. 322, Sec. 2, eff. Sept. 1, 2005.

Note: The Texas Government Code defines the function of advisory committees. (Section 2110.001. *DEFINITION. In this chapter, "advisory committee" means a committee, council, commission, task force, or other entity with multiple members that has as its primary function advising a state agency in the executive branch of state government.*)

#### ***Background***

Research awards and research expenditures are two accepted criteria used to measure the research efforts of higher education institutions. All higher education institutions report research and restricted research expenditures on their annual financial report using nationally-recognized definitions and accounting criteria. In addition, all Texas higher education institutions report research expenditures on the Coordinating Board's Survey of Research Expenditures. Although institutions report these data, the classification of data reported may vary by institutions for a number of reasons:

- Higher education institutional research projects often have multiple goals, including research and development (R&D), training and/or education, economic development, and public service.
- These data are typically self-reported, and it is in an institution's interest to report numbers that are as large as possible.
- Decisions related to how specific expenditures are classified in annual reports are made by staff in different offices within and across institutions. In some cases, it is an accounting office responsibility. In other cases, the office responsible for acquiring contracts and grants is responsible for classification. Hundreds or even thousands of decisions are made in a given year, and the documentation of by whom and how decisions are made, varies by institution.

When it established the Research Development Fund (RDF), the Texas Legislature created a formula to allocate funds to eligible institutions, based on institutionally-certified restricted research expenditures. The Legislature also directed the Coordinating Board to develop standards and accounting methods (SAMs) to define and establish criteria to determine qualifying restricted research expenditures that are reported for the distribution of the RDF. The intent in establishing these definitions and criteria is to provide a more level and transparent playing field for all institutions participating in the fund.

It should be noted that the term "restricted research expenditures" described in this document may vary from the research or restricted research expenditure data reported in other reports by institutions eligible for the fund.

### ***Overview***

This document contains the Coordinating Board's SAMs for use by eligible Texas public universities in reporting restricted research expenditures for the purpose of distributing the RDF. It includes three parts: (1) an expanded definition of research; (2) requirements that every contract, gift or grant from which restricted research expenditures will be made be analyzed using a protocol that meets specified criteria, and that the decision to classify the funds as being for research be documented; and (3) provision for transparency of the institution's research classification of eligible awards.

For purposes of this reporting process, "research" and "research and development" are considered to be equivalent. Appendix A presents an expanded definition of these terms from the federal grant management standards [2 CFR Part 215, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations* (U.S. Office of Management and Budget, Circular A-110)].

### ***Definition of Restricted Research Expenditures***

A restricted research expenditure is an expenditure of funds that an external entity has placed limitations on *and* for which the use of the funds qualifies as research and development.

Entities external to an institution that provide research funds include federal, state, or local government agencies; private philanthropic organizations and foundations; industry associations; for-profit businesses; and individuals. The following examples are intended to illustrate the types of restricted funds:

- When a federal agency provides a grant for a specific purpose, the grant would be considered a restricted fund.
- When a non-profit or community/educational foundation provides a grant for a specific purpose, the grant would be considered a restricted fund.
- A contract from a private sector company would typically be a restricted fund.
- When a donor provides a gift for current expenditure for a specific purpose, or for creation of or addition to an endowment fund, the income from which is for a specific purpose, the funds expended would be considered restricted funds.

Not all restricted funds are restricted for research. An institution could, for example, receive a grant or gift for uses restricted to instruction, training, outreach, or public service.

To qualify as research, the primary purpose of the contract, gift, or grant must be research. Many, if not most, contracts, gifts and grants have multiple goals that might include research, instruction, public service, etc. Generally, primary purpose will be demonstrated by more than half of the funds having been budgeted for research, but it may be also demonstrated by the sponsor's statement of purpose or other documented evidence. For federal grants if the primary purpose is research, all expenditures made as a part of that grant qualify as restricted research expenditures. For non-federal grants, contracts, or gifts if the primary purpose is research, only the research related expenditures made as a part of that non-federal grant, contract, or gift qualify as restricted research expenditures (e.g., do not include costs directly associated with entertainment, such as shows, sports events, meals, lodging, rentals, transportation, and gratuities). If the primary purpose is not research, none of the expenditures made as a part of that contract, gift or grant qualify as restricted research expenditures.

Only selected state appropriated grant programs having a competitive award process may be considered restricted research (See Appendix A). State appropriations directly to institutions through formula or special item funding do not qualify as restricted research.

### ***Accountability***

This provision applies only to institutions that are eligible to receive funds from the RDF. The purpose of this provision is to ensure that qualified persons determine the classification of institutional awards.

Use of the Restricted Research Award Determination Criteria (Appendix B) is required.

Institutions may use their own process for classifying awards from which restricted research expenditures are made. The process must meet the following minimum requirements:

- It must be documented.
- It must be consistent with the definition of restricted research, as described in the previous section of this report and Appendix A.
- It must provide a record of the person or persons who made the classification and the basis of the classification. This record may be in electronic form.
- Institutions must maintain documentation justifying the rationale used to classify projects as restricted research.

### ***Transparency***

Restricted research classification for participation under the RDF is a public process that serves two purposes. First, it allows institutions to verify that other institutions have classified expenditures appropriately. Second, it encourages commonality in decision making where institutions receive contracts and grants from the same programs.

To assure a transparent review and certification of restricted research awards from institutions eligible under RDF, the Coordinating Board developed the following process to be followed on an annual basis:

#### Transparency List

- Each eligible institution must submit a list of all new restricted research awards, including those not previously submitted or reviewed, to the Coordinating Board no later than June 30 of each year. The listing of the new restricted research awards is referred to as the transparency list. A *new* restricted research award is defined by its official Notice of Award or Award Number. A Notice of Award or Award Number establishes a new gift, grant, or contract. If the institution receives an extension of an existing Notice of Award or Award Number, that award is not considered *new*.
- All restricted research awards with a new Notice of Award or Award Number of \$250,000 or more are subject to selection for panel review.
  - The transparency list must include the following for each award, as applicable:
    - ◆ Institution
    - ◆ Current Fiscal Year
    - ◆ Principal Investigator/Recipient
    - ◆ Academic Discipline
    - ◆ Department, Center, School or Institute
    - ◆ Title of Contract, Award, or Gift
    - ◆ Total Amount of Contract, Award, or Gift
    - ◆ Name of Granting or Contracting Agency/Entity
    - ◆ Program Title of Granting or Contracting Agency/Entity
    - ◆ Sponsored Program Number and/or CFDA Number

- ◆ Start Date and End Date of Contract, Award, or Gift
- ◆ Description - required for awards of \$250,000 or more and may include evidence, documentation, or clarification that the award is restricted research.
- The Coordinating Board will post all eligible institutions' transparency lists on its website at <http://www.thecb.state.tx.us/AwardList>.
- Classified military projects or any sponsored program deemed confidential or proprietary by funding entities are exempt from the transparency list.

### Review Panel, Annual Review, and Appeals

- Review Panel
  - Coordinating Board shall convene a review panel to review the transparency lists.
    - ◆ Panel shall consist of representatives from all eligible institutions that choose to participate.
    - ◆ Panel shall convene no later than July 31 of each year.
- Annual Review
  - Selection for Review
    - ◆ Each eligible institution may select any awards on the transparency list for review and consideration by the review panel.
    - ◆ Each eligible institution may select awards from other eligible institutions' transparency lists for review and consideration by the review panel.
    - ◆ Coordinating Board staff may select awards for review and consideration by the review panel.
  - Review
    - ◆ Each institution with selected awards may present appropriate information regarding the merit of a given award for certification as restricted research.
    - ◆ Supporting documentation for an award must be uploaded in the RDF Award List application (<https://www1.thecb.state.tx.us/apps/restrictedresearch>) before the review panel convenes and considers the award.
    - ◆ Certification of a selected award requires a majority approval of a quorum present of the eligible institutions attending the review meeting.
    - ◆ An award determined to not be restricted research due to insufficient information should not prejudice subsequent classifications, should additional information become available.
    - ◆ All decisions of the review panel are to be reflected in the institutions' annual reports of restricted research expenditures.
- Appeals
  - Appeals regarding any decision of the certification process will be directed to the Commissioner of the Coordinating Board for final resolution.

### ***Review***

The Board shall periodically review these standards and accounting methods to determine that they are effective and efficient.

### ***Auditing***

Institutions shall document the process for determining restricted research awards and shall maintain documentation justifying the rationale used to classify the awards as restricted research.

The Commissioner may require an audit of the restricted research records of an eligible institution to verify the submitted information.

### ***Accounting Method***

For reporting purposes, institutions shall use the accrual accounting method as required by the Texas Comptroller for the Government-wide Financial Statements for the restricted research expenditure report.

### ***Implementation Schedule***

The following activities shall occur annually:

- No later than June 30, eligible institutions submit to the Coordinating Board a list of all awards not previously reviewed (See ***Transparency*** for specific requirements).
- No later than July 31, the Coordinating Board convenes a Review Panel for review of the transparency submissions.
- Institutions' preliminary restricted research expenditures reports are due to the Coordinating Board in mid-October.
- No later than November 1 of each fiscal year, the Coordinating Board shall provide a preliminary restricted research expenditure report to the Legislative Budget Board.
- Once the restricted research expenditures for institutions have been finalized, the Coordinating Board will provide a final restricted research expenditures report to the Legislative Budget Board.
- The funds shall be apportioned among the eligible institutions based on the average amount of restricted research funds by each institution per year for the three preceding state fiscal years.

## Appendix A

### Definition of Restricted Research

The Standards and Accounting Methods (SAMs) for reporting restricted research expenditures, established for the Research Development Fund (RDF), defines which expenditures are allowed as restricted research expenditures. A two-step process is used to classify RDF restricted research expenditures: (1) the expenditure must have been restricted for a specific use by an external entity and (2) the expenditure must have been for research.

This appendix presents a detailed outline for the types of research activities and research expenditures allowed under the SAMs for RDF. Examples are provided that illustrate expenditures that could be identified as restricted or not restricted.

Research and Development (R&D) means all research activities, both basic and applied, and all development activities that are supported at universities, colleges, and other non-profit institutions. "Research" is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. "Development" is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function [2 CFR Part 215, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations* (U.S. Office of Management and Budget, Circular A-110)]. Both research and research and development are allowed for RDF restricted research expenditures.

The definition of restricted research expenditures used in the calculation to support RDF is more narrowly defined than restricted research expenditures that are listed in institutions' Annual Financial Reports (AFR). The AFR restricted research definition follows the broader guidelines of the National Association of College and University Business Officers (NACUBO). An institution's RDF restricted research expenditure total does not set the standard for its AFR and should not be used for state or national comparisons. The purpose of the RDF restricted research expenditure totals is to fulfill requirements for the Research Development Fund, the National Research Universities Fund, and Accountability Peer Group criteria.

*Note: The listings of this appendix were adapted, in part, from the Stanford University's Research Policy Handbook, Document 3.2, Definitions and Categories of Sponsored Projects, May 2011, accessed online at <http://rph.stanford.edu/3-2.html>.*

## 1. Activities That May be Restricted R&D For RDF Restricted Research Expenditures

### 1.1. Sponsored R&D

R&D activities are properly classified as Sponsored R&D if the activity is funded with grants and/or contracts (including "sponsored research agreements") by externally awarded funds that are designated by the sponsor primarily for R&D purposes. Examples of sponsored R&D that can be recorded as RDF restricted research for the RDF report include:

- 1.1.1. Awards to University faculty to support R&D activities.
- 1.1.2. Competitively awarded grants and contracts funded by state appropriations specifically identified by the legislature as for research (e.g., NHARP).
- 1.1.3. External faculty "career awards" to support the R&D efforts of the faculty.
- 1.1.4. External funding to maintain facilities or equipment and/or operation of a center or facility that will be used for R&D.
- 1.1.5. External support for the writing of books, when the purpose is to publish R&D results.
- 1.1.6. The research portion of expenditures in the federal work-study program, in accordance with instructions for preparing the Annual Financial Report.
- 1.1.7. Industrial collaboration agreements with universities, colleges, centers, or institutes may qualify as R&D if at least half of the funds are explicitly designated as research support. Only research related expenditures qualify as restricted research expenditures.
- 1.1.8. Clinical trial agreements may be considered R&D only if data collection and analysis are the primary component of the institution's role in a clinical trial. Costs of data collection and analysis performed by other institutions under subcontract do not qualify as research expenses. Costs that are covered by patient charges or similar sources do not qualify as research expenses.
- 1.1.9. Demonstration projects may be R&D only if they include a new R&D component that is at least one-half of the scope of the project.

### 1.2. Restricted Gifts for R&D

A gift provided by an external entity (a foundation, business, or an individual) for a specific purpose qualifies as RDF restricted research if:

- 1.2.1. there is documented evidence of donor's restriction for research, or
- 1.2.2. there is separate evidence that the gift is restricted for research through:

1.2.2.1. documentation by the donor that the gift is restricted (e.g., endowed chair, fellowship) - only research related expenditures qualify as restricted research expenditures, and

1.2.2.2. more than half of the earnings are budgeted for research through the institutional accounting process - only research related expenditures qualify as restricted research expenditures.

### 1.3. Sponsored Instruction and Training

1.3.1. Curriculum development projects may be considered R&D for RDF restricted research if the primary purpose of the project is developing and testing an instructional or educational model through appropriate research methodologies (i.e., data collection, evaluation, dissemination, and publication).

1.3.2. Activities involving the training of individuals in R&D techniques, commonly called R&D training, if such activities utilize the same facilities as other R&D activities and if such activities are not included in the instruction function. This includes dissertation work associated with a R&D project.

### 1.4. Other Sponsored Activities

Other Sponsored Activities may be R&D for RDF restricted research under certain conditions:

1.4.1. Travel grants, only if in sole support of research activities.

1.4.2. Support for conferences or seminars, only if in sole support of research activities.

1.4.3. Support for projects pertaining to library collections, acquisitions, bibliographies or cataloging, only if their purpose is primarily for documented research activities.

1.4.4. Programs to enhance institutional resources, including computer enhancements, etc., only if their purpose is primarily for documented research activities.

## 2. Activities That Are Not Restricted R&D For RDF Restricted Research Expenditures

### 2.1. University R&D

R&D activity is properly classified as University R&D, and cannot be recorded for RDF restricted research, if the activity is supported by any of the following:

2.1.1. Unrestricted university funds (e.g., unrestricted gifts, distributions from unrestricted endowments, interest income, technology licensing income, fees received from external entities for non-research services, proceeds from cost recovery enterprises, state appropriations not identified specifically by the legislature as for R&D purposes, non-capitalized allocations from the

Permanent University Fund or the Higher Education Assistance Fund for R&D purposes other than construction and remodeling) that the university has designated for use in R&D.

- 2.1.2. State appropriations made directly to the university for R&D through formula or special item funding.
- 2.1.3. Cost-sharing expenditures, which are committed to be borne by the university rather than by the sponsor. (Note that cost-sharing provided from appropriated funds would qualify as R&D, but not as restricted R&D.)

## 2.2. Departmental Research

Departmental research means research, development, and scholarly activities that are not organized research and, consequently, are not separately budgeted and accounted for. Departmental research cannot be recorded for RDF restricted research.

## 2.3. Instruction

Instruction means the teaching and training activities of an institution. It includes all teaching and training activities, whether they are offered for credit toward a degree or certificate or on a non-credit basis, and whether they are offered through regular academic departments or separate divisions, such as a summer school division or an extension division. Sponsored instruction and training means specific instructional or training activity established by grant, contract, or cooperative agreement (2 CFR 220, U.S. Office of Management and Budget Circular A-21).

Sponsored instruction that cannot be recorded for RDF restricted research includes:

- 2.3.1. Any project for which the primary purpose is to instruct any student at any location. Recipients of this instruction may be university students or staff, teachers or students in elementary or secondary schools, or the general public.
- 2.3.2. Workforce training as part of a degree program, such as training in field work or capstone projects.
- 2.3.3. Curriculum development projects at any level either to significantly improve or to add to an institute's general instructional offerings. Exception: curriculum development projects may be considered R&D restricted research when the primary purpose of the project is as described in 1.3.1.
- 2.3.4. Projects that involve university students in community service activities for which they are receiving academic credit.
- 2.3.5. Activities funded by awards to departments or schools for the support of students, except as described in 1.3.2.
- 2.3.6. Dissertation work funded by grants, including grants for travel in relation to a dissertation, unless associated with a restricted R&D project described in 1.3.2.

- 2.3.7. Outreach programs that bring local students on campus for classes.
- 2.3.8. General support for the writing of textbooks or reference books, video or software to be used as instructional materials.

Exception: research training as described in 1.3.2 is an exception to activities collectively called instruction and may be recorded as RDF restricted research.

#### 2.4. Other Sponsored Activities

Other Sponsored Activities that cannot be recorded for RDF restricted research are programs and projects financed by federal and non-federal agencies and organizations which involve the performance of work other than instruction and organized research. Examples of such programs and projects are health service projects and community service programs (2 CFR 220, U.S. Office of Management and Budget Circular A-21). Other Sponsored Activities may include:

- 2.4.1. Travel grants, unless for research activities (exception described in 1.4.1).
- 2.4.2. Support for conferences or seminars, unless for research activities (exception described in 1.4.2).
- 2.4.3. Support for university public events.
- 2.4.4. Provision of non-instructional and economic services beneficial to individuals and groups external to the university such as testing or diagnostic services, surveys, urban planning, mapping, etc.
- 2.4.5. Publications by the university press.
- 2.4.6. Support for student participation in community service projects.
- 2.4.7. Support for projects pertaining to library collections, acquisitions, bibliographies or cataloging, unless primarily for documented research purposes (exception described in 1.4.3).
- 2.4.8. Programs to enhance institutional resources, including computer enhancements, etc., unless primarily for documented research purposes (exception described in 1.4.4).

#### 2.5. Other Types of Sponsored Projects

Other types of sponsored projects that are not R&D and that cannot be recorded for RDF restricted research are:

- 2.5.1. Industrial collaboration agreements with universities, colleges, centers, or institutes without a research component may not qualify as research support. Exception: work for industrial collaboration agreements may be considered R&D for RDF restricted research under the conditions described in 1.1.7.

- 2.5.2. Clinical trial agreements without an R&D component, which sometimes involve the administration of a specifically mandated patient protocol (sometimes in multiple clinical sites involving other institutions) for which some costs are typically met by patient charges or other sources. Exception: work for clinical trial agreements may be considered R&D for RDF restricted research if the primary component of the project is as described in 1.1.8.
- 2.5.3. Demonstration projects, in which the primary purpose is not research but the application of previous R&D findings in new settings and the demonstration of their utility. Exception: demonstration projects with a new R&D component as described in 1.1.9 may be considered R&D for RDF restricted research.
- 2.5.4. TRIO Programs with primary purposes on student services and outreach (e.g. Talent Search, Upward Bound, GEAR UP, Educational Opportunity Centers, and Student Support Services).

## 2.6. Pass-Through Funds

Pass-through funds to entities other than RDF-eligible institutions can be recorded as RDF restricted research expenditures. As defined on CB Rule 13.122, pass-through funds are external funds that are passed from one entity to a sub-recipient. The sub-recipient expends the award funds on behalf of or in connection with the pass-through entity.

## 2.7. Indirect Costs and Capital Construction

Expenditures for indirect costs and capital construction related to any restricted research award cannot be recorded as RDF restricted research expenditures.

## Appendix B

### Restricted Research Award Determination Criteria

The Award Determination Criteria are intended to facilitate and standardize determining and documenting research awards. Use of these criteria is required for institutions eligible for funds from the Research Development Fund.

Each award should be identified by the following information:

- Institution
- Current Fiscal Year
- Principal Investigator/Recipient
- Academic Discipline
- Department, Center, School or Institute
- Title of Contract, Award, or Gift
- Total Amount of Contract, Award, or Gift
- Name of Granting or Contracting Agency/Entity
- Program Title of Granting or Contracting Agency/Entity
- Sponsored Program Number and/or CFDA Number
- Start Date and End Date of Contract, Award, or Gift

After reviewing definitions in the Coordinating Board's Standards and Accounting Methods for Reporting Restricted Research Expenditures for the Research Development Fund and considering the intent of the source of funding and the nature of the sponsored program agreement, the proper classification of an award should be based on the indicators shown in these criteria. Several factors should be considered in making this decision. The analysis of the terms of the agreement, and a review of other documentation, such as the CFDA number descriptor, the sponsor's program solicitation, or a requirement for Institutional Review Board (IRB) approval, should assist institutional officials in properly and consistently classifying awards.

Research and Development (R&D) means all research activities, both basic and applied, and all development activities that are supported at universities, colleges, and other non-profit institutions. "Research" is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. "Development" is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function [2 CFR Part 215, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations* (U.S. Office of Management and Budget, Circular A-110).

Final determination must be based on the determination criteria and/or other similar documented materials (i.e., Notice of Award, CFDA Program Grant Overview, Sponsored Program Agreement, etc.). Note that not all of this information is available for every award.

The funded work activities (scope of work) consist of:

- Research Only
- Instruction Only
- Public (Community) Service Only
- Other Purposes, or
- Mixed Purposes

If the funded work activities (scope of work) are for mixed purposes, code the project according to the primary purpose:

Primary purpose will normally be demonstrated by more than half of the funds having been budgeted for research, but may be demonstrated by the sponsor's statement of purpose or other documented evidence. For federal grants if the primary purpose is research, all expenditures made as a part of that grant qualify as restricted research expenditures. For non-federal grants, contracts, or gifts if the primary purpose is research, only the research related expenditures made as a part of that non-federal grant, contract, or gift qualify as restricted research expenditures (e.g., do not include costs directly associated with entertainment, such as shows, sports events, meals, lodging, rentals, transportation, and gratuities).

The CFDA number descriptor denotes a program that is:

- Research Only
- Instruction Only
- Public (Community) Service Only
- Other Purposes, or
- Mixed Purposes

*Note: CFDA numbers are available for federal and federal pass-through awards only. Also note that federal contracts often do not have CFDA numbers.*

The Program Solicitation denotes a program that is:

- Research Only
- Instruction Only
- Public (Community) Service Only
- Other Purposes, or
- Mixed Purposes

*Note: Many non-federal programs and most gifts do not have a program solicitation.*

Based on the list of indicators found in these determination criteria and/or other similar documented materials (i.e. Notice of Award, CFDA Program Grant Overview, Sponsored Program Agreement, etc.), each sponsored program should be classified as:

- Restricted Research
- Research Not Restricted, or

- Not Research

The following information on individuals responsible for the Final Determination should be recorded:

- First reviewer's name, title, and date reviewed
- Second reviewer's name, title, and date reviewed
- Additional information as warranted

*Note: All documentation to support this determination must be available for audit.*