

USI Facilities & Administrative (F&A) Cost Supplemental Information

Background:

The operation of any project at USI involves two kinds of costs: namely, **specific costs** that can be clearly identified and attributed to a project (e.g., salaries, equipment, supplies, travel expenses), and **general costs** of operating the university that are shared by all programs (e.g., building maintenance, utilities, support of the library, technology infrastructure, campus security). When a project is sponsored by an external funding source, the general costs are organized into two major components: (a) the construction, maintenance, and operation of *facilities* in which the sponsored project is conducted; and (b) *administrative* services that support the sponsored project, such as financial management, purchasing, library facilities, departmental administration, laboratory safety monitoring, and the operation of institutional review boards. For this reason, the general costs of sponsored programs are known as **facilities and administrative (F&A) costs**.

The F&A rate is negotiated between the university and its designated cognizant federal agency [USI's is the Department of Health and Human Services (DHHS)], based upon actual cost records maintained by the business office. The rate calculation follows the federal rules and regulations that govern grants, contracts, cooperative agreements, and subrecipient agreements (sponsored project agreements). A Facilities & Administrative cost rate is simply a device for determining fairly and expeditiously, within boundaries of sound administrative principles, that proportion of an institution's costs which should be borne by each of its projects or activities. The Facilities & Administrative cost rate is the ratio between the total allowable F&A costs of an institution and some direct cost base, such as the salaries & wages (S&W) base for short-form schools such as USI.

F&A costs, formerly called "overhead" or "indirect costs," are real expenses borne by USI to conduct externally sponsored projects on campus. In order to recover all funds expended for F&A, an institution must allocate and collect its proportionate share from every project being performed by the institution. USI has chosen in the past to distribute these recovered F&A funds back into the university's general fund or on occasion for selected awards, return partial F&A recovery to the applicable administrative head.

Definitions:

Cost Sharing. The portion of project costs not borne by the sponsor. It may be cash, in-kind contributions or a portion of the costs matched by the institution or a third party. Cost sharing should not be confused with other commitments of university resources to the project director's program, staff, equipment or facilities that are not specifically or solely related to a specific project. Acceptable cost sharing contributions must meet the following criteria:

- The contributions to be cost shared are verifiable by USI records.
- The contributions to be cost shared are allowable, allocable, reasonable, and necessary for proper and efficient accomplishment of specific project or program objectives.

- Federal funds, directly or indirectly, are not used for cost sharing on other federally funded projects, except where authorized by federal statute to be used for cost sharing or matching.
- The contributions to be cost shared are not included as contributions for any other project.
- The contributions to be cost shared are directly identifiable with the sponsored project as outlined in the proposal budget and/or budget justification, and thus incorporated in the award notice.

Direct Costs. Direct costs charged to sponsored project agreements must be allowable, allocable, and reasonable. Those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. **Examples:** (1) compensation of employees for performance of work under the sponsored project agreement, including related fringe benefit cost; (2) the costs of materials consumed or expended in the performance of the work; (3) other items of expense incurred for the sponsored project agreement, provided such costs are consistently treated in like circumstances.

Facilities and Administrative Costs (F&A costs) are actual costs incurred to conduct the normal business activities of an organization that cannot be readily identified with or directly charged to a specific project or activity, such as light and heat, financial management, purchasing, departmental administration, library facilities, etc. These expenses are not covered by the direct charges allowed in the sponsored project agreement. The normal activities of the university include instruction and departmental research, organized research, public service, and other institutional activities. F&A costs are real, auditable costs incurred by the university each time it accepts an award for a sponsored project. If the university does not collect full reimbursement for these costs, other university resources must be used to subsidize them. Negotiated, approved rates are to be used for all agreements, as allowable.

In-Kind Contribution. A non-cash commitment used to fulfill cost sharing or matching requirements for a sponsored project (such as contributed effort, facilities use, or supplies).

Sponsor. An external funding source which enters into an agreement with the university to support research, instruction, public service or other sponsored activities. Sponsors include private businesses, corporations, foundations and other not-for-profit organizations, other universities, and federal, state and local governments.

Sponsored Project. A project supported by an external funding source under a mutually binding formal written agreement, i.e., a grant, contract, cooperative agreement, or subrecipient agreement (sponsored project agreements), that restricts the use of funds to the approved project and stipulates other conditions with which the university must comply. These agreements restrict projects by the scope of work and/or the types and levels of expenditures and include reciprocal transfer of something of value. Sponsored projects typically:

- are initiated by a formal proposal and award notice;
- are restricted to a particular purpose as described in the proposal (statement of work);
- require separate and detailed financial accountability;

- require technical and/or financial reports;
- entail other administrative requirements.

The decision to classify a source of support as a sponsored project is coordinated between the Sponsored Research Office and the Business Office.

Purpose:

The purpose of this policy is to increase the effectiveness of recovered F&A costs in promoting creative, research, and scholarly activities, as well as other faculty development programs at USI. The proposed research incentive F&A Policy focuses the funds in the hands of deans, unit heads and the Sponsored Research Office through a specified formulaic method. The funds made available to colleges (and centrally) will allow USI to invest strategically in significant ways in new undertakings of a scholarly and programmatic nature.

To strengthen the administrative infrastructure that supports research and sponsored projects and to increase funds to support faculty research proposals, equipment cost sharing, and other such research-support programs, the University must charge the full costs of research/sponsored projects to sponsors whenever possible.

Facilities & Administrative (F&A) Cost Policy:

Policy Applicability & Collection of F&A Costs

The following policy regarding collection of F&A costs applies to *all* proposals for sponsored projects submitted on or after July 1, 2006. As real expenses to USI, F&A costs *must* be included in the budgets of proposals for grants, contracts, cooperative agreements, and subrecipient agreements (sponsored project agreements) *when allowable*. Sponsors may or may not specify F&A rates; USI’s policy is described below.

1. If a sponsor’s written policy or proposal guidelines place a limit on the percentage or amount of F&A costs that may be recovered on a sponsored project agreement, then USI will request F&A costs in accordance with the sponsor’s requirements.
 - a. A copy of the sponsor’s published F&A cost recovery policy must be included with the proposal submitted to SRO.
2. If a sponsor does not specify a F&A rate, then F&A costs will be requested as follows:
 - a. *Federal Grants, Contracts, Cooperative Agreements, and Subrecipient Agreements (Sponsored Project Agreements):* F&A costs will be requested at the USI federally negotiated rate. The current approved F&A rate (effective through June 30, 2007) is **51% of salaries and wages excluding fringe benefits**. (For example, if a proposal requests \$300,000 in direct costs, including \$100,000 in salaries and wages, then F&A costs in the amount of \$51,000 will be requested—for a total budget request of \$351,000.)
 - i. *Proposals for training programs, career and salary awards, institutes and fellowships.* F&A costs will be requested at the rates approved by the Federal agencies

for training programs. Currently the DHHS and the Department of Education (DE) allow a maximum of 8% of total allowable direct cost (TADC) for F&A on training grants.

- b. *Non-Federal Grants, Contracts, Cooperative Agreements, and Subrecipient Agreements (Sponsored Project Agreements):* In the absence of a published sponsor policy concerning the amount or rate of F&A cost recovery, sponsored projects with *local governmental units in the state of Indiana, nonprofit organizations, and industries* shall be a rate at a level appropriate to the project but **no less than 10% of total direct costs, unless the funds are federal flow-through in which case the university's approved federal F&A rate shall apply.** (Using, for example a 20% F&A rate, if a proposal requests \$100,000 in direct costs then F&A costs in the amount of \$20,000 will be requested—for a total budget request of \$120,000.)

*Researchers might explain to sponsors who expect no request for F&A costs that **under federal regulations, universities cannot charge less F&A costs to private corporations than they charge to the federal government.** OMB Circular A-21 regarding Facilities and Administrative Cost Rates says: "each institution's F&A Cost Rate process must be appropriately designed to ensure that Federal sponsors do not in any way subsidize the F&A costs of other sponsors, specifically activities sponsored by industry and foreign government." When the University "waives" F&A costs on a project, the University must still support that project and simply absorb the unrecovered F&A costs.*

- c. *When the USI Foundation is the applicant of record:* F&A costs will be requested at a rate appropriate to the project but **no less than 10% of the total direct costs.** (For Federal grants, contracts, cooperative agreements, and subrecipient agreements (sponsored project agreements), USI's federally negotiated rate will be used (i.e., through June 30, 2007, **51% of salaries and wages excluding fringe benefits**) as a guide for applicable projects.
3. An exception to the F&A cost recovery policy may be warranted if it is clearly in the best interest of the University to accept the sponsored project with less than full F&A cost recovery and only when appropriately justified. The approving authority for an exception to the F&A cost recovery policy is the director of Graduate Studies & Sponsored Research. The approval to waive or reduce F&A costs requested must occur **prior** to the submission of a proposal.
 - a. The project director or principal investigator must justify convincingly the reason for not charging the standard or allowable F&A rate. The argument must be submitted in writing.
 - b. All waivers or reductions of normal F&A cost recoveries must be noted and approved on the USI Internal Routing Form attached to each sponsored project proposal application prior to submission. The adjusted Research Incentive Distribution of recovered F&A costs will be determined at the time the exception is approved.
 - i. A case where the F&A cost recovery will be less than the reduced or waived the F&A cost recovery will be less than USI's approved rate does not mean that the F&A costs

of these sponsored projects are not real. *These F&A costs, if not recovered, result in a drain of operating budget resources that support core university functions.* In effect, USI subsidizes the sponsored project with other funds. *For this reason, when the sponsor requires cost sharing, the difference between the rate or amount of F&A cost recovery and the university's F&A costs for the program may be included in the proposal budget as a cost that is being shared by the university (may be cash or inkind).* (Using, for example a 10% F&A rate, if a proposal requests \$100,000 in direct costs, including \$50,000 in salaries and wages (s&w), then F&A costs of \$10,000 will be requested [10% of \$100,000 equals \$10,000] and \$15,500 will be cost shared [the difference between \$25,500 (51% of s&w) and \$10,000 (F&A)]—for a total budget request of \$110,000 and a total project cost of \$125,500.) In effect, the proposal budget that includes cost sharing acknowledges the university's contribution to the project as the amount of shared cost. Note: Failure to document the agreed upon cost sharing during the conduct of the project may result in reduction of funds available from the sponsor.

- ii. If a request for an exception to the F&A cost recovery policy is denied, a principal investigator or project director may resubmit the request for a reduced rate or amount if one or more responsible parties agree to provide the university with the cash amount equal to the amount of F&A costs that will not be recovered (must be cash). The responsible party must indicate this willingness by signing the USI Internal Routing Form identifying the source of the funds prior to the proposal's submission. Note: Committed cost sharing of direct costs of Organized Research projects becomes a component of the Organized Research Base for purposes of computing F&A cost rates. Increasing the organized research base will reduce the F&A cost rate and, consequently, lower F&A costs reimbursement.
 1. Responsible parties are those authorized to commit university budget and include department chairpersons, unit directors, deans, and vice presidents.
 2. Principal investigators and co-investigators are encouraged to discuss this option with Sponsored Research staff prior to seeking cost share approval from department chairs, deans, and/or equivalent administrators.

Research Incentive Distribution of F&A Costs

1. The following policy regarding distribution of F&A costs effective July 1, 2006, applies to all grants, contracts, cooperative agreements, and subrecipient agreements (sponsored project agreements):
 - a. Thirty percent (30%) to the department of the principal investigator.
 - b. Twenty five percent (25%) to the college or equivalent administrative unit.
 - c. Five (5%) to Rice Library.
 - d. Thirty percent (30%) to the Sponsored Research Office (SRO).
 - e. Ten (10%) percent to the University General Fund.
2. Special Cases

- a. In the case of collaborative proposals involving multiple departments, colleges, or administrative units, the distribution plan for sharing the departmental and college shares of recovered F&A costs must be agreed upon and indicated on the USI Internal Routing Form **prior** to the proposal's submission. These collaborative distribution plans must be approved by the director of Graduate Studies & Sponsored Research and the cognizant dean(s) or equivalent administrator(s). Principal investigators and co-investigators are encouraged to propose a distribution plan representative of each party's effort in the proposed project.
- b. All F&A costs recovered on grants, contracts, cooperative agreements, and subrecipient agreements (sponsored project agreements) awarded to the USI Foundation on behalf of USI will be distributed according to the circumstances that generated the funding and as a result of the partnerships that complete the related sponsored project agreement. These distributions must be approved by the director of Graduate Studies & Sponsored Research and the cognizant dean(s) or equivalent administrator(s).
- c. There will be occasions when a center, institute, or similar entity needs to retain a greater share of the F&A costs it generates in order to facilitate its becoming self-supporting. Just as municipalities allow for tax abatement in order to promote and retain certain businesses, the university will allow a unit to retain the F&A costs it generates to assist the development of a center or institute. In order to qualify for such status, the center or institute will submit a written request to the director of Graduate Studies & Sponsored Research. The request must be approved by the college dean(s) and must include the following: *the name of the center or institute; a justification for retention of F&A costs; the period during which F&A costs will be retained; and a proposed dollar limit on the F&A costs retained.* Requests will be reviewed on a rolling basis by the director of Graduate Studies & Sponsored Research.

Procedure:

Grant Accounting will distribute to the academic deans and unit heads the F&A costs recovered as a result of external sponsored project activities in each of their respective units. All such accounts will not be fiscal year based and balances will be carried forward.

F&A cost monies received by the University from all grants, contracts, cooperative agreements, and subrecipient agreements (sponsored project agreements) with a grantor shall be distributed according to the following guidelines:

1. General Distribution
 - a. Funds will be distributed according to schema in item number 1 under Distribution of F&A Costs.
 - b. If the computed allocation of any required direct costs results in a negative sponsored project account balance, the Business Office will apply the departmental share of F&A cost funds to the deficit. If a deficit balance still remains, the college share of F&A cost

funds will be used. Any remaining balance in the account will be credited to the department head's research and development account when allowable.

2. F&A cost monies distributed to a department will be credited to the department's research and development account.
3. F&A cost monies distributed to the college will be credited to the college's research and development account.
4. This policy shall apply to all grants, contracts, cooperative agreements, and subrecipient agreements (sponsored project agreements) initiated after July 1, 2006, and all awards received thereafter.

Sources: Central Michigan University; Albert Einstein College of Medicine of Yeshiva University; Polytechnic University; Boise State University; Indiana State University; University of New Hampshire; Indiana University; Fordham University; Stanford University; University of Minnesota; Arizona State University; John Hopkins University; Medical College of Georgia.