FACILITIES AND ADMINISTRATION COSTS
(F&A, INDIRECT, OVERHEAD COSTS) AT-A-GLANCE

THE FOLLOWING SUMMARIZES SOME FREQUENTLY ASKED QUESTIONS AND PROVIDES GENERAL INFORMATION ON FACILITIES & ADMINISTRATION COSTS. PLEASE CONTACT YOUR OGC REPRESENTATIVE FOR ADDITIONAL INFORMATION OR EMAIL grantsc@ecu.edu
WHAT IS F&A?

- ALL SCHOLARLY AND RESEARCH ACTIVITY AT THE UNIVERSITY INCURS TWO TYPES OF COSTS
  - DIRECT COSTS AND
  - INDIRECT OR OVERHEAD COSTS (F&A)

- DIRECT COSTS CAN BE SPECIFICALLY LINKED TO A SPECIFIC PROJECT, ACTIVITY, ACCOUNT (EXAMPLES: SALARY, SUPPLIES, TRAVEL)

- INDIRECT COSTS ARE THOSE COSTS THAT ARE SHARED AMONG PROJECTS, ACTIVITIES AND ACCOUNTS (EXAMPLES: OSP, HR, OGC, HOUSEKEEPING, BUILDINGS, UTILITIES, IRB, IACUC, ENVIRONMENTAL SAFETY)
WHERE DO THE RATES COME FROM?

- **THE STARTING POINT IS THE TOTAL COSTS OF THE UNIVERSITY AS PRESENTED IN THE ECU FINANCIAL STATEMENTS.**

- **ADJUSTMENTS ARE MADE TO THESE COST ACCORDING TO OMB CIRCULAR A-21 REQUIREMENTS.**

- **THE TOTAL COSTS ARE THEN SEPARATED INTO TWO GROUPS (AS DEFINED)**
  - INDIRECT COST POOLS
  - DIRECT COST BASES
RATES continued

- THE INDIRECT COST RATE IS SIMPLY A FRACTION WITH

  - THE POOLS AS THE NUMERATOR AND

  - THE BASE AS A DENOMINATOR

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\text{INDIRECT COST POOLS} = \frac{\text{F&A RATE}}{\text{DIRECT COST BASE}}
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WHAT ARE INDIRECT COST POOLS?

- ECU HAS 8 INDIRECT COST POOLS.

- THEY CAN BE DIVIDED INTO ADMINISTRATIVE COMPONENTS AND FACILITIES RELATED COMPONENTS.

- THE ADMINISTRATIVE COMPONENTS ARE:
  - GENERAL ADMINISTRATION
  - DEPARTMENTAL ADMINISTRATION
  - SPONSORED PROJECTS ADMINISTRATION
POOLS continued

- THE RATE STRUCTURE FOR THE ADMINISTRATIVE COMPONENT IS CAPPED BY THE GOVERNMENT AT 26% WHILE THE FACILITIES COMPONENTS ARE UNCAPPED AND MAY BE SUBJECT TO INCREASE AND NEGOTIATION.

- THE FACILITIES RELATED COMPONENTS ARE:
  - BUILDING DEPRECIATION
  - EQUIPMENT DEPRECIATION
  - OPERATIONS AND MAINTENANCE
  - INTEREST
  - LIBRARY
WHAT ARE THE DIRECT COST BASES?

THE DIRECT COSTS BASES ARE:

• INSTRUCTION (WHICH INCLUDES SPONSORED TRAINING AND DEPARTMENTAL RESEARCH)

• ORGANIZED RESEARCH (WHICH INCLUDES RESEARCH TRAINING)

• OTHER SPONSORED ACTIVITY

• OTHER INSTITUTIONAL ACTIVITY
HOW IS THE RATE CALCULATED?

- EACH OF THE POOLS ARE ALLOCATED TO THE DIRECT COST BASES ACCORDING TO AN ALLOCATION STATISTIC.

- THE STATISTIC BASE FOR THE FACILITIES RELATED COSTS IS SQUARE FOOTAGE.

- THE STATISTIC BASE FOR THE ADMINISTRATIVE COSTS IS MODIFIED TOTAL DIRECT COSTS (MTDC).
RATE CALCULATION continued

THE FEDERAL MODIFIED TOTAL DIRECT COST (MTDC) IS TOTAL DIRECT COST LESS

- EQUIPMENT ($5,000/UNIT)
- LEASE/RENT SPACE
- PATIENT CARE COSTS
- TUITION, CLASS FEES, STIPENDS, SCHOLARSHIPS & FELLOWSHIPS
- CAPITAL IMPROVEMENTS, ALTERATIONS/RENOVATIONS
- SUBCONTRACTS AFTER THE FIRST $25K
HOW CAN DEPARTMENTS IMPACT THE RATE?

- The rate is dependent upon accurate coding of expenditures in the accounting system.
- Documentation of cost-sharing within the effort system (and other reports) is a critical component of the base development.
- All cost-share/match affects the base development.
- Space must be accurately functionalized.
DO WE REALLY SPEND X CENTS PER DIRECT GRANT DOLLAR AS OVERHEAD?

- YES!

- THE INDIRECT COST PROPOSAL IS AUDITED VERY CAREFULLY BY THE FEDERAL GOVERNMENT.

- ONLY COSTS DEEMED TO BE ALLOWABLE BY THE GOVERNMENT ARE CLAIMED.

- THE GOVERNMENT DOES NOT ALLOW ALL ACTUAL COSTS.

- A UNIVERSITY’S ACTUAL INDIRECT COSTS ARE USUALLY HIGHER THAN THE NEGOTIATED RATE.
DOES ECU MAKE A PROFIT CHARGING F&A TO GRANTS?

- NO!

- THE INDIRECT COSTS ARE BASED ON REDUCED “REIMBURSEMENTS” FOR COSTS THAT HAVE ALREADY BEEN INCURRED AND PAID BY ECU.

- FEDERAL REGULATIONS ALLOW ONLY FOR THE REIMBURSEMENT OF SPECIFIC EXPENSES. BUILDING A PROFIT MARGIN INTO THE RATE IS STRICTLY PROHIBITED.

- BECAUSE THE RATES ARE LESS THAN ACTUAL AND ARE USUALLY APPLIED IN A FUTURE PERIOD WHEN NEW, ACTUAL COSTS HAVE PROBABLY INCREASED...
  
  - THE F&A CHARGED TO SPONSORED PROJECTS DOES NOT FULLY COVER TOTAL ACTUAL UNIVERSITY EXPENSES AT THE TIME THEY ARE INCURRED.
WHERE DOES THE F&AC MONEY GO?

- UNIVERSITIES HAVE DIFFERENT MODELS FOR DISTRIBUTION OF F&A RECOVERY.
  - MANY CAMPUSES RETURN ALL THE F&A TO THE UNIVERSITY OR STATE GENERAL FUND

- AT ECU, THE INDIRECT COST RECOVERY IS SHARED WITH THE SCHOOL/COLLEGE 10%, THE DEPARTMENT 10%, AND THE PI 10%.

- 70% OF THE RECOVERY IS RETAINED BY THE INSTITUTION AND GOES TO DIRECT SUPPORT OF RESEARCH AND SPONSORED PROJECTS ENDEAVORS AND TO MAINTAIN THE INFRASTRUCTURE.

- AT ECU, NONE OF THE INDIRECT COST RECOVERY IS RETAINED AT THE UNIVERSITY LEVEL FOR GENERAL FUND PURPOSES.
RETURNING INDIRECT DOLLARS

- The indirect dollars are returned to the school/department/PI for use at their discretion – in support of research activities.

- However, it should be considered that
  
  - The indirect recovery may only partially reimburse the school/department for costs or commitments already incurred.
  
  - The indirect recovery may not be sufficient for all of the infrastructure needs related to sponsored projects activities.
  
  - Indirect cost should not be perceived as an additional general revenue stream but rather as a means to help meet commitments and support the necessary costs of research and sponsored projects endeavors.
RETURNING INDIRECT DOLLARS, continued

- IT IS ANTICIPATED THAT PIs WILL USE THEIR PORTION OF THE INDIRECT COST PROCEEDS TO PAY FOR ITEMS NEEDED TO ENHANCE THEIR RESEARCH PROGRAMS.

EXAMPLES:
- COSTS THAT CANNOT BE CHARGED TO SPECIFIC GRANTS
- SALARY AND EXPENSE BRIDGE FUNDING BETWEEN GRANTS
- PURCHASING NEEDED EQUIPMENT OR SUPPLIES TO SUPPLEMENT AND SUPPORT THE RESEARCH PROGRAM
- SUMMER SALARY FOR 9 MONTH APPOINTEES
- TO HELP SUPPORT GRADUATE STUDENTS
- FOR ADDITIONAL ACADEMIC BUY-OUT FOR RESEARCH TIME
- FOR COSTS NOT NOMRALLY A DIRECT COST – DUES, MEMBERSHIPS, BOOKS/SUBSCRIPTIONS, COMPUTERS, ETC.
- FOR PROFESSIONAL TRAVEL AND
- TO OTHERWISE SUPPORT THE GROWTH OF RESEARCH AT ECU AND THE DEVELOPMENT OF NEW RESEARCH PROJECTS.
DOES ECU RECOVER ALL COSTS FROM THE SPONSOR?

- NO!
- SOME AGENCIES DO NOT PAY THE FULL RATE.
- COST SHARING REDUCES THE RECOVERY.
- ANY CAPPED ADMINISTRATIVE COMPONENT REDUCES THE RECOVERY.
- SPECIFIC PROGRAM RESTRICTIONS (LIKE NIH SALARY CAP) REDUCE THE RECOVERY.
- THE RATE USUALLY DOES NOT CHANGE FOR THE LIFE OF THE GRANT WHILE ACTUAL COSTS TO THE UNIVERSITY USUALLY GO UP DURING THE LIFE OF THE AWARD.
DOES ECU RECOVER ALL COSTS continued

- THE LAST SEVERAL YEARS THERE HAS BEEN A STRONG GOVERNMENT PUSH TO REDUCE INDIRECT RATES AND TO ELIMINATE CERTAIN TYPES OF COSTS FROM THE CALCULATIONS.

- THERE IS A RELUCTANCE ON THE PART OF THE GOVERNMENT TO INCREASE COSTS
  - EVEN WHEN ACTUAL COSTS CAN BE PROVEN TO HAVE INCREASED.

- RECOVERY IS ALWAYS IN ARREARS AND USUALLY DOES NOT COVER INFLATIONARY OR MARKET CHANGES OF ACTUAL COSTS.
DOES ECU RECOVER ALL COSTS continued

NATIONALLY –

- THE SUBSTANTIAL INCREASE IN GOVERNMENT FUNDING FOR RESEARCH (THE DENOMINATOR, DIRECT COST BASE) HAS DRIVEN CALCULATED RATES DOWN.

- HOWEVER, BECAUSE OF INCREASED NUMBERS OF AWARDS, THE ACTUAL INDIRECT REVENUE IS APPROXIMATELY THE SAME OR HAS INCREASED SLIGHTLY.

- THE TOTAL ACTUAL INDIRECT COSTS INCURRED, ESPECIALLY FOR COMPLIANCE FUNCTIONS, HAS INCREASED SIGNIFICANTLY WHILE RECOVERY HAS REMAINED ABOUT THE SAME.
HOW IS MY GRANT CHARGED F&A?

INDIRECT COSTS ARE CHARGED ON INDIVIDUAL AWARDS AS A PRODUCT OF THE DIRECT COST EXPENDED, LESS CERTAIN COSTS THAT ARE REQUIRED TO BE EXCLUDED FROM THE CALCULATION.

TOTAL DIRECT COST CHARGED TO THE GRANT
LESS EXCLUDED ITEMS
X INDIRECT COST RATE
= AMOUNT CHARGED TO THE FUND

TOTAL DIRECT COSTS + INDIRECT COSTS MUST BE EQUAL TO OR LESS THAN THE TOTAL AUTHORIZED BUDGET
HOW IS MY GRANT CHARGED continued

- INDIRECT COSTS ARE BOOKED TO THE FUND BASED ON ACTUAL EXPENDITURES - NOT THE PROPOSED OR BUDGETED COSTS.

- IF THERE IS A LINE-ITEM DEVIATION IN THE ACTUAL DIRECT COSTS INCURRED, ESPECIALLY THE EXCLUDED ITEMS, THERE CAN BE SIGNIFICANT DIFFERENCES (UP OR DOWN) IN THE INDIRECT AMOUNTS CHARGED TO THE AWARD.

- IF THERE IS A SIGNIFICANT DEVIATION, SOME DIRECT COSTS MAY NEED TO BE REMOVED FROM THE FUND OR SOME ADDITIONAL DIRECT COST BUDGET MAY BE AVAILABLE FOR EXPENDITURE.

- THE INDIRECT COST IS A LEGITIMATE COST OF PERFORMING THE PROJECT. A FUND’S CALCULATED INDIRECT COST WILL NOT NORMALLY BE WAIVED OR ADJUSTED BASED ON OVER-EXPENDITURE OF DIRECT COSTS.

- ONLY THE VICE CHANCELLOR FOR RESEARCH & GRADUATE STUDIES (RGS) MAY AUTHORIZE A WAIVER OF THE INDIRECT COST CALCULATED.
HOW IS MY GRANT CHARGED continued

- **ON A MONTHLY BASIS,** BANNER AUTOMATICALLY CALCULATES AND POSTS INDIRECT COSTS TO EACH FUND, BASED ON THE EXPENDITURES INCURRED IN THAT PERIOD.

- **F&A** DOES NOT CALCULATE AGAINST ENCUMBRANCES.

- **OGC PERIODICALLY** MONITORS THE CALCULATIONS AND WILL OCCASIONALLY MAKE MANUAL F&A ADJUSTMENTS FOR ROUNDING DIFFERENCES OR TO CLEAR DEFICIT SPENDING OR DUE TO RECLASSIFICATIONS OF COSTS.

- **THE F&A IS MANUALLY RECALCULATED** BY OGC AND IS CORRECTED, AS NEEDED, WHEN FINANCIAL REPORTS OR INVOICES ARE SUBMITTED TO THE SPONSOR.
WHY SO MANY RATES?

- **BECAUSE DIFFERENT PROJECTS HAVE INHERENTLY DIFFERENT TYPES OF COSTS,**

- **OR HAVE IMBEDDED ACTIVITY RELATED TO OTHER MISSIONS OF THE UNIVERSITY, AND**

- **BECAUSE THE PHYSICAL LOCATION OF THE PROJECT AFFECTS THE ACTUAL FACILITIES COSTS (THE UNCAPPED PORTION OF THE CALCULATION), AND**

- **THE GOVERNMENT REQUIRES THAT SEPARATE RATES BE NEGOTIATED TO TAKE THOSE DIFFERENCES INTO CONSIDERATION.**
DIFFERENT RATES continued

THE RATES ARE NEGOTIATED BY TYPE

(AS FEDERALLY DEFINED – MAY NOT MATCH ACADEMIC DEFINITIONS)

• RESEARCH
• INSTRUCTION & TRAINING
• OTHER SPONSORED ACTIVITIES
• ON CAMPUS
• OFF CAMPUS ADJACENT (WITHIN 25 MILES)
• OFF CAMPUS REMOTE (GREATER THAN 25 MILES)
DOES MY PROJECT GET ALL THE DIRECT BENEFIT FROM THE INDIRECT COST IT EARNED?

- NOT NECESSARILY.

- INDIRECT COSTS ARE BASED ON A NEGOTIATED, AVERAGED POOL OF COSTS.

- THE COSTS ARE ACTUAL AT THE INSTITUTIONAL LEVEL BUT CANNOT ALWAYS BE ALLOCATED AT THE INDIVIDUAL AWARD LEVEL.

- IF THE COSTS COULD BE ALLOCATED TO THE INDIVIDUAL AWARD, THEY WOULD (BY DEFINITION) BE DIRECT COSTS NOT F&A.

- INDIVIDUAL PROJECTS MAY INCUR MORE OR LESS ACTUAL INDIRECT COSTS THAN THE AMOUNT CHARGED TO THE SPECIFIC PROJECT FUND IN THE ACCOUNTING SYSTEM.
ECU PHILOSOPHY & POLICY

- Indirect costs are a legitimate cost of doing business and maximum recovery is needed to sustain and support sponsored activities on campus.

- Most sponsors understand the institutional need and will pay indirect costs.

- Reducing indirect costs does not enhance the merits of the proposal or assure an award.

- Failure to recover indirect costs reduces the university’s financial capabilities, increases ECU’s financial burden, reduces program flexibilities, and limits ECU’s ability to grow and develop new programs.
ECU PHILOSOPHY & POLICY

- INDIRECT COST SHOULD NOT BE VOLUNTARIALLY WAIVED EXCEPT UNDER EXTRAORDINARY CIRCUMSTANCES, WHERE ESSENTIAL TO MEET THE PERFORMANCE NEEDS OF THE PROJECT OR

- WHEN SPECIFICALLY LIMITED BY PUBLISHED SPONSOR GUIDELINES APPLICABLE TO ALL PROPOSERS.

- A REQUEST FOR WAIVER OF INDIRECT COST MUST HAVE A STRONG JUSTIFICATION AND SHOULD NOT BE BASED SOLELY ON PROJECT BUDGETARY CONSIDERATIONS.
BASES TO APPLY RATES FOR PROPOSALS AND ACTUAL CALCULATIONS = F&A BASES

- TOTAL DIRECT COST (TDC) –

- F&A RATE IS APPLIED TO ALL DIRECT COSTS - NO EXCLUSIONS.

- THIS IS THE ECU BASIC POLICY BASE AND SHOULD BE USED EXCEPT WHEN ANOTHER BASE IS SPECIFICALLY REQUIRED BY THE SPONSOR.

- THIS BASE IS NORMALLY APPLIED TO ALL NON-FEDERAL AWARDS UNLESS THE SPONSOR HAS A SPECIFIC BASE REQUIREMENT.
BASES CONTINUED

- TOTAL ADJUSTED DIRECT COST (TADC) –
  - F&AC RATE IS APPLIED TO ALL DIRECT COSTS EXCEPT EQUIPMENT
  - EQUIPMENT = $5,000/UNIT
  - THIS BASE IS SOMETIMES APPLIED TO FEDERAL FLOW THROUGH FIXED FEE AWARDS THAT DO NOT RECEIVE THE FULL F&A RATE.
MODIFIED TOTAL DIRECT COST (MTDC) –

MOST COMMON FEDERAL BASE

ITEMS EXCLUDED FROM THE CALCULATION ARE:
- Equipment ($5,000/unit)
- Tuition/class fees remission
- Stipend/scholarships/fellowships
- Participant support costs
- Rent/lease space
- Alterations/renovations/construction – capital improvements, capital/land purchase
- Subcontracts > $25,000
- Direct patient care costs
BASES CONTINUED

- **SALARIES & WAGES & FRINGE BENEFITS (S&W)**

- F&A RATE IS ONLY APPLIED TO SALARY AND FRINGE COSTS

- THIS BASE IS SOMETIMES USED BY A FEW MUNICIPAL/LOCAL GOVERNMENTS AND NON-PROFITS
BASES CONTINUED

- TRAINING

- SOME FEDERAL TRAINING PROGRAMS HAVE A UNIQUE BASE FOR THE SPECIFIC PROGRAM AND DO NOT USE THE STANDARD MTDC.

- ALWAYS REVIEW THE SPECIFIC REQUIREMENTS FOR TRAINING PROGRAMS – MAY VARY BY PROGRAM AND AGENCY
BASES CONTINUED

- OTHER

- ANY SPONSOR OR ANY SPECIFIC TYPE OF AWARD MAY HAVE A SPECIAL F&A BASE REQUIRED.

- UNLESS SPECIFIED BY THE SPONSOR POLICIES, THE TDC RATE SHOULD BE USED FOR ALL NON-FEDERAL SPONSORS AND THE MTDC RATE WILL BE USED FOR MOST FEDERAL AWARDS.
For questions about Facilities and Administration Costs, please contact your OGC Representative or email grantsc@ecu.edu