

COUNCIL ON GOVERNMENTAL RELATIONS

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The twenty issues addressed below are a representative sample of frequently raised concerns. The questions were asked by faculty at COGR member universities. The answers were provided by members of the COGR Costing Policies Committee, the COGR Board and staff.

These questions can be changed, their answers may be rephrased or they can be replaced by new questions and/or answers. We invite you to treat this document as a basis for ongoing exchanges with COGR and to add your suggestions for continuing improvements. You may contact Tony DeCrappeo Bob Hardy at the COGR office, or send a message to memberservices@cogr.edu.

Since both OMB Circular A-21, the cost circular, and OMB Circular A-110, the management circular for universities are referenced, the respective links to these documents are provided under Resources/OMB Circulars.

F&A QUESTIONS:

1. I only use my computer in my office to do sponsored research but not in my laboratory so why do I have to pay so much money in indirect costs?

The F&A rate provides a means for reimbursing the university for many administrative services and facilities that support sponsored research, not just the space housing the researcher. The F&A rate is an average rate, representing the ratio of the university's total F&A costs to total direct research costs. It is applied uniformly to all projects, regardless of the type of research, the Principal Investigator, or the room where the research is performed. (See F&A Costs - What They Are and Why They Are Important, Section IVB for more information).

2. Why can't my department have its own indirect cost rate?

The calculation of the F&A rate is a complex process in which aggregated research F&A costs are compared to total research expenditures to produce an average rate for the institution. Once calculated by the university, the F&A rate proposal is submitted to the government for detailed review and negotiation. For most schools this process takes place every three to four years. Calculating and negotiating F&A rates for individual departments would increase the degree of complexity many times over and would make the

grant proposal preparation and award administration process nearly impossible. (See F&A Costs - What They Are and Why They Are Important, Section V for more information).

3. How do I get the money to pay an administrative assistant, which I am told is considered to be part of the F&A rate?

The government reimburses the institution for administrative support (i.e. university, college, departmental, and sponsored programs administration) through the F&A rate process. What the institution does with the administrative reimbursement is an internal policy decision. The faculty member should discuss this issue with those individuals on the campus responsible for budgeting/resource allocation. (See F&A Costs - What They Are and Why They Are Important, Section IVB for more information).

4. I will be working on my award away from the campus for 3 months. Why can't I have the off-campus F&A rate charged to the award?

The determination of when an award is charged the off-campus F&A rate is made in accordance with each institution's policy. The off-campus rate reimburses the institution for the cost of administering research projects, it does not provide for the reimbursement of facilities costs for the main campus. If project-related work is conducted off-campus for short durations (e.g. three months or less) there typically is no reduction in the project's on-campus facilities costs during this period, therefore the award is assessed the full on-campus rate. Generally the use and amount of an off-campus F&A rate is part of the negotiated rate agreement with the federal cognizant agency.

5. If we accept lower F&A rates than our negotiated rate from some sponsors, why can't we use that lower rate all the time?

The F&A rate is the mechanism by which institutions are reimbursed for the cost of the services, support, facilities and infrastructure necessary for the conduct of sponsored research. The rate is established by federal guidelines and reflects the real costs incurred by the university regardless of sponsor. The rate is the aggregate of all F&A costs averaged over all sponsored projects. When a project does not pay the negotiated rate, the unrecovered F&A costs do not go away, they must be paid by other sources. Typically this means the institution has to absorb the shortfall through other resources.

6. I am going to be buying a lot of supplies from ABC Company. Can we use a subcontract document and save on indirect costs?

A subcontract is an agreement with another entity to perform a significant part of the work scope on a sponsored project. The purchase of supplies is a procurement action that does not entail an intellectual

contribution to the project or direct participation in the research. A subcontractor is a research collaborator; a vendor is not. Furthermore, by issuing a subcontract agreement the institution assigns certain rights to the subcontractor, ownership of intellectual property for example. Such assignment would not be appropriate for an agreement to purchase supplies.

7. What do you mean I can't charge this journal to my award? What does having it in the library have to do with anything?

Library cost is a component of the F&A rate and institutions are reimbursed for a fraction of library costs, including technical journals, periodicals, reference materials, facilities and library administration. Since the government is reimbursing the institution for library costs through the F&A process, charging a journal to an award would result in "double-dipping", that is, the government would pay for library materials both as a direct and indirect cost. In rare instances a federal sponsor may allow the PI to charge a journal directly to an award, for example, if it can be documented that a journal was necessary for the performance of the project and it was not available in the institution's library.

8. I bought a computer last year for \$2,000 and was not charged F&A costs on it. Now I want to buy the same computer for the same amount and since our equipment threshold was raised to \$5,000, I am now being charged F&A costs on the computer. Why?

Federal regulations now allow institutions to have an equipment capitalization threshold of \$5,000 or less. When an institution increases its capitalization threshold, equipment less than the amount of the new threshold is subject to F&A. Some universities have raised the equipment threshold as a way to reduce administrative burden, since a higher threshold reduces the number of items that must be tracked in inventory as equipment. Since award budgets can be negatively impacted by such a change, it is recommended that the institution give faculty advance notice of the change so that budgets can be prepared accordingly.

9. My Sponsored Projects Office said I can't cost-share because of the financial impact on the university. Cost sharing will help me get this award so why can't I do it?

All promises to cost-share must be made in accordance with the institution's policy governing such commitments. There are a number of factors to consider when evaluating whether to make a cost sharing commitment in a research proposal. Cost sharing may be required by a sponsor in a solicitation or broad agency announcement. Or, an institution may choose to offer cost sharing in a competitive proposal even though cost sharing is not required. Irrespective of whether cost sharing is mandated by the sponsor or offered voluntarily by the institution, it entails a financial commitment by the institution. Cost sharing on federally-funded projects can negatively impact the F&A rate, since it must be included in the university's organized research base, which has the effect of lowering the F&A rate. (See F&A Costs - What They Are and Why They Are Important, Section V for more information).

10. I wrote in my narrative that the university would buy me equipment if I get the grant and the university has asked that the statement be removed. Why?

The effect of this statement in the narrative is a commitment for the university to cost-share, as discussed above. Normally faculty cannot commit university resource since such commitments typically require approval by an authorized university official.

11. I got this request to complete a space study for my research laboratory, and I am going to put the same numbers as I have been doing for years. What harm can it do?

For research universities, facilities costs are approximately 50% of total F&A reimbursements and these costs are increasing as a result of modernization and expansion of research space. The space study is the basis on which the university is reimbursed for the cost of facilities used for research. Federal guidelines detailed in OMB Circular A-21 provide clear definitions for the fair distribution of space. Accurate space survey data ensures that the university receives equitable reimbursement for its facilities-related costs.

12. Why are we double dipping when it comes to subawardees and F&A costs? The subawardee gets full F&A costs and the university collects on the first \$25K. Seems like double dipping to me.

There is no double-dipping since two institutions are involved in the research and both incur administrative costs. The subawardee is reimbursed for its full F&A costs since the work is performed on its premises. The university that makes the subaward also incurs F&A costs in administering its agreement with the subawardee, i.e. executing the agreement, monitoring expenses, processing invoices, making payments, reporting to the prime sponsor, etc. Paying F&A costs only on the first \$25k of the subaward is the government's way of recognizing that subawards incur less administrative costs than on-campus projects.

13. I can charge long distance calls to awards so why can't the standard monthly service charges be charged?

Long distance calls can be charged to awards only when the call relates to a specific project. In most cases, the standard monthly telephone service charges are costs that benefit all of the individual's activities, not just research. Since this monthly fee is in most cases a "jointly benefiting" cost, it would be inappropriate to direct-charge it to an award. Direct charging is only allowable in cases where the telephones are for a dedicated and unique research purpose- e.g., a bank of telephones established to conduct a telephonic survey.

14. If the university provides us with an animal facility why do we have the direct charging of per diem rates as well?

Institutions recover the cost of animal care facilities in two ways; as a component of the F&A rate and directly from users through per diem rates. The costs associated with facilities where animals are used in research are treated like other research laboratories and are a component of the F&A rate. Other costs such as animal care technicians and cage-washing facilities are recovered directly from users (and charged to grants and contracts) through per diem rates. This method allows for the recovery of animal care facilities costs while keeping per diem fees to a minimum.

15. Why doesn't MTDC exclude more things?

Direct cost exclusions are defined by Federal regulations (i.e. OMB Circular A-21). In theory, the exclusions represent direct costs that do not incur the same level of ongoing F&A support as other direct costs. For example, F&A costs for equipment or subcontracts remain substantially the same regardless of the degree to which a certain dollar threshold is exceeded- up to \$5,000 for equipment, and \$25,000 for subcontracts.

16. What does the President's office have to do with a research F&A cost rate?

The President's Office is responsible for the administration of the university and all of its activities, including research. OMB Circular A-21 defines the President's office as part of the General Administration and General Expense (i.e. "G&A") cost pool, part of the Administrative component of the F&A rate. (See F&A Costs - What They Are and Why They Are Important, Section IVB for more information).

17. What does a new building have to do with impacting the F&A cost rate calculation?

A new building can have a significant impact on the F&A rate if that building is used directly for research or in support of research. The depreciable cost of the building and equipment along with its operating costs (utilities, maintenance and custodial costs) are recoverable F&A costs. If the building is financed with external debt, the interest cost is also recoverable. Since the reimbursement of building depreciation is based on the actual cost of the building, not its replacement cost, new buildings will have a much greater impact on the F&A rate than older buildings. (See F&A Costs - What They Are and Why They Are Important, Section IVA for more information).

18. At other universities, faculty get funds returned from F&A recovery for research purposes. Why can't I get such funding? What happens to the F&A funds recovered?

The F&A funds recovered represent reimbursement to the institution for costs already incurred. These reimbursements are an unrestricted source of funds to the university and for most institutions are a component of the general funds budget. As such, the F&A recovery is allocated to units based on the

individual university's management philosophy regarding operating budgets. Some universities choose to earmark some portion of the recovery for faculty, to encourage further research, others do not.

19. I serve on the Institutional Review Board but receive no compensation for my time, which is considerable. My institution says the cost of my efforts is reimbursed through the F&A rate. Why can't I be paid for my time?

Because of the increased effort required for faculty to serve on such institutional panels, some universities have established a method to pay faculty for these services. However in most cases, the university may not be able to recover the additional faculty pay through the F&A rate because F&A regulations cap both the amount of faculty administrative effort and total administrative costs that can be reimbursed.

20. I just came from a university, which has a lower F&A rate than my new place of employment. Why are there such differences in rates?

The major factors for rate variations among universities include the size, age, and intensity of research use of facilities, research mix, amount of debt financing, geographic location affecting utility costs, construction and labor costs. In addition, universities do not all negotiate their F&A rate with a single federal agency or even a single office within an agency. This results in varying interpretations of the F&A guidelines. What one federal negotiator may view as reasonable, another may view as unacceptable. (See F&A Costs - What They Are and Why They Are Important, Section IX for more information).