

University Policy: Facilities and Administrative (F&A) Costs on Sponsored Projects

Policy Category: Research

Subject: Facilities and Administrative Costs on Sponsored Projects

Responsible Executive: Chief Financial Officer, Vice President & Treasurer

Offices Responsible for Review of this Policy: Office of the Provost and Office of Finance and Treasurer

Procedures: As described below

Related University Policies: Overhead Recovery and Revenue Distribution Policy and the PI Handbook

I. SCOPE

Facilities and administrative costs (F&A) on external sponsored projects provide reimbursement to the university for real institutional expenses that are necessary to support extramural research activities. As per regulatory and administrative requirements of the funder, some pooled institutional costs cannot be directly charged to a grant or contract. These pooled costs (sometimes referred to as indirect costs) result from shared services provided by the university in part for the support of research activities of faculty, staff and students, including but not limited to libraries, physical plant operations and maintenance, utilities and energy consumption, general, departmental and sponsored projects administrative expenses, and depreciation or use allowance for buildings and equipment.

Facilities and administrative cost rates charged by the university for Federal grants and contracts are computed on the basis of documented costs incurred by the university and regulations from the U.S. Office of Management and Budget (OMB) that define specific cost categories that are eligible for reimbursement. Facilities and administrative cost reimbursement rates are periodically re-negotiated with our cognizant Federal audit agency, the Department of Health and Human Services (DHHS). A signed agreement (a Negotiated Indirect Cost Recovery Agreement or NICRA), that establishes the allowable rates of reimbursement, is entered into between the University and the U.S. Government.

These Federally audited and approved rates are also applied to some categories of non-federal awards.

The negotiation of facilities and administrative cost rates is conducted on behalf of the university via collaboration among specific university offices (e.g., Office of the Vice President for Finance, including the Office of the Controller, Office of Sponsored Projects (OSP), Grants and Contracts Accounting (GCA) and the Vice Provost for Research). Individual faculty members, directors of centers and institutes, or other representatives of academic units are not permitted to negotiate facilities and administrative cost rates on behalf of the university, in particular at the pre-award (proposal development) stage. Recovered F&A costs are not profit to the university and even “full” F&A recovery on federal grants and contracts does not cover the true costs of research. As a result, every sponsored project conducted by university faculty and staff requires some financial contribution by the university.

II. DEFINITIONS

Facilities and Administrative Costs: These are costs that are incurred for common or joint objectives which cannot be identified readily and specifically with a particular sponsored project. Relevant examples include costs such as research facilities, utilities, administrative salaries, and general office expenses.

Indirect Costs: Same as Facilities and Administrative Costs.

Sponsored Research Project: A sponsored project is an activity that is externally funded and which includes a formal funding instrument such as a grant, contract, or a cooperative agreement between the university and the sponsor. A sponsored project involves a transaction that includes a specified statement of work and a related, reciprocal transfer of something of value.

Funder: An external entity that provides the funds for the conduct of a sponsored project.

Grant: A type of financial assistance awarded to the university for the conduct of research or another program as specified in the approved proposal. A grant is typically used when the sponsor anticipates no substantial programmatic involvement with the recipient during the performance of the activities.

Contract: A type of financial assistance awarded to the university for the conduct of research or another program which includes language legally binding the university to a funder for the performance of specific deliverables in exchange for the awarded funds. Contracts may include additional restrictions involving confidentiality, intellectual property, publication rights, termination, work schedules, liability/indemnification, payment schedules and changes to the scope of work.

Fixed Price Contract: A fixed price contract involves payments of predetermined lump-sum or periodic amounts by a funder to support a sponsored project, sometimes, but not

exclusively tied to, completion of specific project deliverables. The payments may or may not require a payment request from the university.

Matching Funds: Cash or confirmed funding commitments from outside sources that are cost sharing requirements by a sponsor from an applicant.

NICRA: Negotiated Indirect Cost Recovery Agreement, an agreement between the university and the federal government that establishes the allowable rates of reimbursement in specific categories of awards.

Federal: Of or pertaining to the government of the United States of America.

Non-Federal: Of or pertaining to a funder other than the government of the United States of America such as a state or local government, a for-profit corporate entity or a private non-profit entity.

Pass Through Funds: Refers to a situation in which funds received by the university from a grantor are distributed to a third-party entity. That is, the funds are not used directly by the university to conduct a project or another specific purpose.

Non-Profit Entities: a group organized for purposes other than generating profit and in which no part of the organization's income is distributed to its members, directors, or officers.

III. POLICY STATEMENT

It is the policy of the university to apply the maximum Facilities and Administrative (F&A) costs rate to grant applications congruent with the rates stated in the appropriate NICRA applicable to the period of the externally-funded award. Specifically:

- A. For funds received directly from Federal agencies: All grant and contract applications to and awards from Federal agencies must include indirect costs at the agreed upon rate as set forth in the University/DHHS Negotiated Agreement, except as provided otherwise by Federal regulations or specific agency solicitations. The faculty and staff are notified of the agreed upon rates by a university-wide communication from the Grants and Contracts Accounting (GCA) office.
- B. For Federal funds not received directly from Federal agencies: Indirect costs on pass through funds, commonly referred to as non-direct Federal grants and contracts (except those funds passed through other governmental units) must be included at the appropriate Federal rate currently in effect.
- C. For Nonfederal grants and contracts from for-profit entities: All grant and contract applications to and awards from Nonfederal for-profit entities must include indirect costs at the agreed upon Federal rate as set forth in the University/DHHS

Negotiated Agreement, except as provided otherwise by Federal regulations or specific agency solicitations. Awards that do not include the full indirect cost rate will not be accepted.

Exceptions to the collection of full indirect costs can be applied for in the case of matching funds for a federal, state or non-profit funded grant or contract. In such a case, the required rate on the matching funds from a for-profit entity will be limited to the rate approved for the applicable Federal, State or non-profit agency.

- D. For Nonfederal grants and contracts from non-profit entities: All grant and contract applications to Nonfederal non-profit entities must include indirect costs at the agreed upon Federal rate as set forth in the University/DHHS Negotiated Agreement, except as provided otherwise by Federal regulations or specific agency solicitations. If the sponsoring non-profit agency has a University-approved policy that differs from the Federal rate (as discussed below), the application may include indirect costs at the University-approved rate.

If the sponsoring non-profit agency has a policy that it will not pay indirect costs, or has an indirect cost rate that is less than the Federal rate negotiated for American University, the University will review the policy only upon receipt of a document on sponsor letterhead certifying:

1. That the policy and rate are published;
2. That it is an agency-wide policy; and
3. That the policy is consistently applied by that organization to all of its outside grants and contracts with educational institutions.

A copy of the agency's non-profit status as certified by the Internal Revenue Service may also be required.

Requests for F&A rate exceptions with documented justification must be included with the submission of an application's routing package. All materials must be submitted via the appropriate Dean/Director (for his/her review and approval) to the OSP Director for final approval. The form for requesting an F&A rate exception is available on the OSP webpage.

The Office of Sponsored Programs maintains a Nonfederal Indirect Cost Exceptions index of sponsors and rates that are approved. The current list is available on the OSP webpage.

IV. GIFTS

Extramural funds received by the University that meet any of the following criteria will qualify as gifts and are not subject to F&A costs:

- A. A funding instrument that provides support for broadly defined activities, such as professorships, endowments, capital projects, scholarships, instructional programs, and unrestricted research. The funder may restrict the use of funds to a specific program area or purpose.
- B. The funds are intended for capital improvements or for the use of the University's endowment.
- C. The conditions or stipulations placed on the use of the funds serve to direct the funds to a general area of interest of the funder, such as scholarships or infrastructure.
- D. Funds may be returned or reallocated in the event the University or the Board of Trustees discontinues or chooses to abandon the supported activity.
- E. The external funder requires a charitable gift receipt.
- F. The funding instrument requires no formal or specific deliverable.
- G. There is no formal fiscal accountability to the donor beyond periodic progress reports and summary reports of expenditures. These reports may be thought of as requirements of good stewardship and, as such, may be required by the terms of the gift. Any required reports are not characterized as contractual obligations or deliverables.
- H. Funds are provided to the University with true philanthropic intent.

Extramurally funded activities that do not meet any of these criteria for designation as a gift will be treated as a Nonfederal grant or contract, subject to assessment of indirect costs as provided in this policy.

V. UNRESTRICTED GRANTS

When a for-profit sponsor wishes to give an unrestricted grant, indirect costs will be assessed unless all of the following conditions exist:

- A. The award is prepaid, or a payment schedule is provided at the time of award. Scheduled payments cannot be conditional on receipt of any report or deliverables by the principal investigator or the University. Awards for \$10,000 or less must be prepaid;
- B. No detailed fiscal or technical reports are required--either periodic or final. The principal investigator may provide the donor with a brief statement that the

expenditures were in accord with the intent of the gift or a brief summary of the results of the supported activities;

- C. No patents, copyrights, or other intellectual property rights that result from the gift are claimed by the donor;
- D. No provisions (e.g., delays, advance notice) are imposed by the donor concerning publication or dissemination of data and information derived from the activity;
- E. There is no time limit on the expenditure of funds, and the grant is irrevocable. Acknowledgement of the above items by the sponsor must be obtained and made available to OSP when requesting an indirect cost waiver.

VI. GRANTS AND CONTRACTS - FROM OTHER GOVERNMENTAL UNITS

(i.e., foreign or domestic, states, counties, or local municipalities).

A. All grant and contract applications to other governmental units must include indirect costs at the agreed upon Federal rate as set forth in the University/DHHS Negotiated Agreement, except as provided otherwise by Federal or other governmental regulations or specific agency solicitations.

B. At the time of award, if the other governmental unit has a policy that it will not pay indirect costs or will provide indirect costs at a rate less than the Federal rate, the University will review the policy only upon receipt of a document on agency letterhead certifying the following:

1. That the policy and rate are published;
2. That it is an agency-wide policy; and
3. That the policy is consistently applied by that governmental unit to all of its outside grants and contracts with educational institutions.

Requests for rate exceptions with the aforementioned justification must be included with the submission of the original extramural support transmittal form. All materials must be submitted via the appropriate Dean/Director (for his/her review and approval) to the OSP Director for final approval. As a reminder, University faculty and staff may not negotiate a reduced indirect cost rate as part of initial discussions with outside sponsors.

C. Proposals submitted jointly by the University and any of the above governmental units to the Federal Government must include indirect costs on the University portion of the budget at the Federal rate currently in effect.

VII. FIXED PRICE CONTRACTS

Fixed price contracts are characterized by payments to the university of predetermined amounts by a funder to support a sponsored project, often, but not exclusively tied to, the completion of specific project deliverables. The payments may be either lump-sum or periodic and may or may not require a payment request from the university. The payments to the university are on a predetermined lump-sum project cost rather than an expense reimbursement basis, without further accounting. The following statements outline the ways in which F&A costs are addressed in fixed price contracts.

- A. In constructing the budget for a fixed price contract, F&A costs are built into the price of the contract (e.g., per-diem salary costs, materials, equipment, etc.). F&A costs are then extracted from the budget as the funds are expended.
- B. If project costs are less than the amount of the award, the excess revenue is retained by the university. Cost overruns are assumed by the teaching unit or the academic unit, if the sponsor does not provide additional funds to the university.
- C. Once there has been positive indication of project completion, a maximum amount of 20% of the direct costs of the fixed price contract's unspent funds will revert to the teaching or academic unit of the principal investigator if (1) there was no voluntary waiver of F&A costs, and (2) the unexpended balance is greater than \$50. If there was F&A cost waivers, funds will first be used to reimburse the university for unrecovered F&A costs.

VII. EFFECTIVE DATE AND REVISIONS:

This Policy is effective as of July 1, 2015.