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Reimbursement and Distribution of F&A (Indirect) Costs

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I. REASON FOR THIS POLICY

The purpose of this policy is to set expectations for reimbursement of Facilities and Administration (F&A, aka Indirect) costs for externally sponsored projects, and to establish guidelines for the distribution of recovered F&A costs among appropriate campus units at The University of South Dakota (USD).

The policy described herein addresses several long-standing issues. The goals of the policy are to:

1. Streamline the process for requesting F&A reimbursement in grants and contracts.
2. Ensure that campus units that provide the services and products that define indirect costs are adequately reimbursed for these costs.
3. Establish a distribution mechanism that recognizes multiple PIs, co-investigators with significant project contributions, research centers, and other administrative complexities arising from long-term projects, large scale interdisciplinary projects, and multi-project programs.
4. Optimize the use of recovered F&A dollars to develop campus infrastructure supporting high quality and nationally competitive research and creative activities.

II. STATEMENT OF POLICY

Principal investigators (PIs) and project directors at the university, and their partners in the public and private sectors, are responsible for garnering grants and contracts to support their research and other activities. In addition to the direct costs of projects, there are very real and, in many cases, costly indirect expenses that external dollars must reimburse so that the university is not financially damaged when engaged in sponsored activities. The University of South's (USD) policy is to recover F&A costs from sponsors, based on F&A rates negotiated between the university and the federal government. USD distributes the recovered dollars to central administration and other campus units for reimbursement of indirect costs and to catalyze future sponsored activities. However, there has been substantial variability in the application of this policy, including failure to apply appropriate negotiated F&A rates and special arrangements for indirect cost distribution to certain units.

III. DEFINITIONS

None.

IV. PROCEDURES

Determining F&A costs to be charged

OFFICIAL F&A RATES: F&A costs charged to grants and contracts are determined by rates negotiated by the university with the Division of Cost Allocation, U.S. Department of Health and Human Services. Separate rates are negotiated for research, instruction and other sponsored projects (such as public service), and for activities conducted off and on campus. Current rates are published on the USD website and available from the Office of Research and Sponsored Programs (ORSP).

CAPPED F&A RATES: The applicable full F&A rate is charged to all grants and contracts unless the sponsor has a published policy, accessible to the public, that is uniformly applied to all awards. By SD Board of Regents policy, F&A rate on state dollars (excluding federal flow-through) is limited to 60% of the corresponding federal rate.

Examples of published, public and uniform F&A caps are those described in Requests for Proposals/Applications (RFP/RFA), Program Announcements (PA) and Broad Agency Announcements (BAA), organization websites, or published organization documents such as annual reports, brochures, tax documents, bylaws, or governance documents. Oral or written official announcements of capped F&A policy given by an official of the organization at formal public meetings, public webinars, or open workshops for applicants are also acceptable to establish F&A caps. Evidence that is insufficient to document capped F&A costs includes, but not limited to: email messages, telephone

conversations, and similar personal correspondence with individuals from the organization; historical F&A rates applied to prior grants; and proposals submitted by other universities.

It is the responsibility of the PI to provide credible evidence of sponsor policy on capped F&A costs. In the absence of this evidence, the applicable full F&A rate will apply, or the PI may request waived F&A as voluntary cost share (see below).

VOLUNTARY COST-SHARE BY UNIT (WAIVED F&A): Reduction or waivers of F&A costs may only be approved by the vice president for research. If full F&A costs are permitted by the sponsor, but a PI, department, or college/school requests that some or all F&A costs be waived, the waived F&A dollars will be treated as the unit's voluntary cost-share. Similarly, if a sponsor has no legitimate policy on F&A, but at the request of the PI (or equivalent) the full F&A is not applied, then the waived indirect costs will be treated as the unit's voluntary cost share. The dean must approve the request to the vice president for research for waived F&A. Note that some agencies-the National Science Foundation is a current example-prohibit voluntary cost-sharing.

Negotiation between the PI and sponsor regarding F&A rates is not permitted, and constitutes a breach of ethical conduct.

Distributing recovered F&A costs

FULL F&A COSTS RECOVERED: When full F&A rates are applied, the recovered F&A dollars are distributed as follows: 58% central administration, 32% dean(s), 5% suspense, and 5% to the research incentive pool.

CAPPED F&A COSTS: If the sponsor has a *published* policy that caps F&A costs, and that policy is *publicly accessible* and *uniformly applied* to all applicants, then the recovered F&A dollars will be distributed as shown above for full F&A recovery.

VOLUNTARY COST-SHARE BY UNIT (WAIVED F&A): Any F&A dollars that are recovered when there is a voluntary cost-sharing by the unit will be first distributed-in order-the suspense account, central administration, and research incentive pool in *amounts equivalent to full F&A reimbursement*. If there are any recovered F&A dollars remaining after these distributions, then those dollars will be allocated to the dean(s).

FEDERALLY APPROPRIATED DOLLARS: F&A costs recovered from federally appropriated dollars (earmarks) are not distributed to units, but are distributed 65% central, 5% deans, 5% suspense, and 25% research incentive pool.

MULTIPLE PIs AND CO-INVESTIGATORS: When there are co-PIs or co-investigators dedicating more than 15% effortⁱ to a project (documented in the proposal approved by the sponsor), F&A distribution will be made to the cognate deans in proportion to the relative efforts of PIs and co-investigators.

ON-AND OFF-CAMPUS RESEARCH CENTERS: Research Centers, *defined and recognized by official university-wide policy*, are eligible to receive distributed indirect cost dollars. Requests should be directed initially to the vice president for research; however, the negotiations will involve deans, chairs, and center directors as well as the vice president for research and vice president of finance. An off-campus research center is one that pays directly for the cost of a lease, utilities, and other services that are typically facilities expenditures made centrally.

Accountability for Distributed F&A Dollars

Distributed F&A dollars in indirect cost recovery cash accounts within the colleges and schools are limited to 10% growth in a cash balance annually, unless the dollars are placed into an account for a specified approved purchase within a defined timeline. Undesignated cash accumulation in excess of 10% will revert to the University Budget Committee.

An annual accounting of expenditure categories will be done by Grants Accounting for indirect cost recovery cash accounts. The primary purpose of return of F&A dollars to units is to defray indirect costs of externally sponsored activities, and to incentivize growth in research and creative activities as well as successful grantsmanship. Award, distribution, and expenditures of F&A dollars will be reported annually in the ORSP Grants and Contracts report.

Use of Funds in Research Incentive Pool

Research incentive pool funds will be invested to grow research, creative activities, and signature scholarly work; and to increase external funding of these activities. The uses for which funds from the research incentive pool will be leveraged are:

- New faculty start-up costs
- Mandatory grant match
- Research center establishment and expansion
- Improvements in core facility and other shared infrastructure
- Support for proposal development for major external awards

The vice president for research is responsible for the allocation and oversight of research incentive pool funds. He/she may consult with appropriate groups (e.g., the University Research Council) for recommendations for specific uses of funds, as well as general investment strategies. The investments and their outcomes will be reported annually to the president's executive committee prior to the close of each fiscal year. Funds that are not allocated, encumbered, or designated for a specific use as shown above reverts to the University Budget Committee process in the next fiscal year.

Appendix

- Distribution of recovered F&A dollars is to incentivize faculty and research centers to go after more sustainable funding, and pursue opportunities outside the usual academic departments.
- Distribution of recovered F&A will attempt to provide sufficient funds to deans and departments so participation in research centers or multi-disciplinary or interdisciplinary projects is not discouraged.
- When full F&A is not received, the policy recognizes limitations placed by some sponsors (capped F&A) while discouraging units from making arbitrary reductions in indirect cost reimbursement as an attempt to increase direct costs or sway sponsor staff (unit's voluntary cost-share/waived F&A). In the second case, loss of reimbursement to the university is minimized by distributing to central accounts before any allocation of F&A dollars to deans.
- Deans are encouraged to use their allotment of F&A dollars for strategic investment in research, scholarship and creative activities in the college/school, rather than automatically passing funds through departments and, in particular, to individual PIs.

V. RELATED DOCUMENTS, FORMS AND TOOLS

F&A Policy is also governed by BOR policy 5:2,
http://www.sdbor.edu/policy/5_FinanceBusiness/documents/5-2.pdf.

ⁱ Based on the presumption that “significant” effort would be equivalent to at least one 3-credit course release in a 3+3 teaching assignment (18 credits), i.e., 16.7% release.