



# Indirect (F&A) Cost Category Manual

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New Mexico Tech Business Office

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The purpose of this document is to describe the process developed by the federal government to determine the indirect (or F&A) cost recovery for sponsored research and describe how to accurately code the transactions that impact this process.

This document is continually being updated; we would appreciate any information and/or insight that would help us develop stronger policies for NMIMT's research community.

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## I. Introduction

Universities and other contractors providing services to the federal government incur direct and indirect costs associated with providing the contracted services. The intent of this manual is to describe the process developed by the federal government to determine the indirect cost recovery for sponsored research, and to describe how to accurately code the transactions that impact this process. The federal government policies, as defined in the Code of Federal Regulations Title 2: Grants and Agreements Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (herein after Uniform Guidance or UG), are used by universities to establish a formal and negotiated indirect cost rate in order that they be included in any requested external funding. These indirect costs also are referred to as facilities and administration (F&A) costs.

The institute requires recovery of both the direct and F&A costs incurred when performing externally funded research, training, and other sponsored projects or programs. Principal investigators (PIs) must include F&A costs in their proposed budgets for contracts, grants, and any other externally funded award.

Current and past F&A rate agreements are available at the Sponsored Projects Administration website. The rates represent a fraction that then is applied to the modified total direct costs (MTDC) of a sponsored project or program. The **cost category codes** discussed in this document are color coded. Green indicates an **F&A cost pool code**; red indicates a **benefiting function code** that denotes either an F&A rate applied to sponsored projects, or a function that is allocated a portion of F&A costs that the government does not reimburse. (See Section III. B of this document more information about MTDC.)

## II. Facilities and Administration Cost Components - F&A Cost Pools

The Uniform Guidance defines F&A (or indirect) costs as “those [costs] that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project” (Appendix III to Part 200, paragraph A). Some examples of F&A costs are shown in the following table.

F&A Cost Category Example	Cost Category Code	Allocation Base
Building, equipment and capital improvements depreciation	<b>DE</b>	Space Study
Operation and maintenance expenses	<b>OM</b>	Space Study
General and administrative expenses	<b>GA</b>	MTDC
Library expenses	<b>LI</b>	User/FTE
Departmental administration expenses	<b>DA</b>	MTDC
Sponsored projects administration expenses	<b>SP</b>	MTDC
Student services administration expenses	<b>OA</b>	MTDC

**Note:** Examples of F&A costs include, **but are not limited to**, those shown in the table above.

The Sponsored Projects Administration’s (SPA) Cost Accounting Office (CAO) is responsible for preparing the F&A cost proposal and submitting it to the cognizant federal agency in accordance with this section. Facilities and administration costs consist of a facilities component and an administrative component. These cost components are divided into the following categories:

- Facilities
  - Building, land improvement, and equipment costs
  - Interest
  - Interest – New Mexico
  - Operations and maintenance of plant (**OM**)
  - Library expenses (**LI**)
- Administrative
  - General and administrative (**GA**)
  - Departmental administration (**DA**)
  - Sponsored projects administration (**SP**)
  - Student services administration (**OA**)

The following subsections contain more information about these categories.

## A. Facilities Component

### a. Building, Land Improvement, and Equipment Costs

The expenses under this heading represent a portion of the costs associated with the institution's buildings, capital improvements to land and buildings, and equipment which are computed in accordance with Uniform Guidance Section 200.436.

Because the institute can only recover costs it incurs, equipment that is donated or loaned, or purchased with federal funds, is excluded from the calculation.

**Note:** Equipment is allocated to the same cost categories as the space it occupies, and the space study is performed at least every two years.

Building, capital improvement, and equipment costs are allocated to the appropriate indirect cost pool and major function based on the net assignable square feet (NASF) occupied (see Section III. A, herein and refer to Cost Accounting Office's web site for additional information concerning the space study). Buildings and/or equipment must be in use to qualify. Refer to Uniform Guidance Section 200.436 paragraph (a).

**Note:** A fixed asset does not have to be in use for an entire year to qualify for reimbursement.

### b. Interest

This category can include interest costs (as defined in 200.449) incurred by the institute for the acquisition of long-lived assets. These costs can be allocated to the appropriate indirect cost pool based on specific benefits gained (Uniform Guidance Appendix III, subsection B(3)). Universities are entitled to the recovery of interest costs, but at the current time, New Mexico Institute of Mining and Technology (NMIMT) does not include qualifying interest within the proposal process.

### c. Interest – New Mexico

This category can include interest costs paid by the State of New Mexico on behalf of NMIMT. These costs can be allocated to the appropriate indirect cost pool based on specific benefits gained and may be included in future rate proposals. At the current time, NMIMT does not include this interest within the proposal process.

### d. Operations and Maintenance of Plant (OM)

Operations and maintenance of plant includes costs that have been incurred for the administration, supervision, operation, maintenance, preservation, and protection of NMIMT facilities. Costs include facilities management administration, building and grounds maintenance, vehicle maintenance, campus safety, campus planning, health safety training programs, waste collection and disposal service, environmental health and safety testing, custodial service and utilities including electricity, chilled water, steam, natural gas and water, and the maintenance of the utility and distribution systems for non-auxiliary buildings.

The operation and maintenance expense category must also include its allocable share of fringe benefit costs, depreciation and interest costs. These costs are allocated to the appropriate indirect cost pool and major function based on the NASF occupied (UG Appendix III Section (B)(4)).

e. Library (**LI**)

Library costs include the cost of books and library materials, less any items of library income that qualify as applicable credits under UG Section 200.406 . The library expense category also includes any fringe benefits applicable to the salaries and wages included therein; the appropriate share of general administration and general, operation and maintenance expenses; and applicable depreciation or use allowances. Costs incurred for the purchases of rare books (museum type books) with no value to sponsored agreements should not be allocated in this manner (UG Appendix III Section B(8)(a)).

## B. Administrative Component

Facilities and administration costs in the administrative component are allocated based on MTDC as defined in Section III (B)herein.

a. General and Administrative (**GA**)

The expenses under this category are those that have been incurred to serve the entire university system and other expenses of a general character which do not solely benefit any major function of the institution, i.e., solely for the benefit of instruction, organized research, other sponsored activities or other institutional activities. This administrative support is provided by the Board of Regents, the President's Office, the Vice President's Office, the Business Office, the Office of Budget and Analysis, the Department of Human Resources, the Purchasing Department, the Post Office, and other administrative service departments. These costs are allocated to the major functions of the university and other facility and administrative cost pools through the step-down process based on modified total costs. (UG Appendix III Section (B)(5)).

b. Departmental Administration (**DA**)

Departmental administration costs include costs incurred for administrative and supporting services that benefit common or joint departmental activities or objectives in academic departments and divisions as well as organized research units. Examples include administrative duties, such as serving as department head, or grant and contract proposal preparation, allowed at a rate of 3.6 percent of modified total direct costs, for the solicitation of an external sponsor (UG Appendix III Section (B)(6)) These costs are allocated based on the MTDC of each sponsored activity and instruction.

When charging costs to departmental administration pool, special care is required to ensure that costs incurred **for the same purpose in like circumstances are treated consistently** as either direct or F&A costs. For example, salaries of technical staff, laboratory supplies (e.g., chemicals), telephone toll charges, animals, animal care costs, computer costs, travel costs, specialized shop costs (service centers), etc., must be treated as direct costs wherever identifiable to a particular cost objective.

These costs may be direct charged through the specific identification of individual costs to benefiting cost objectives or through service centers, as appropriate under the circumstances.

The salaries of administrative and clerical staff are normally treated as F&A costs (Refer to UG Section 200.413(c)). However, the direct charging of these costs may be appropriate only if all of the following conditions are met:

- 1) Administrative or clerical services are integral to a project or activity;
- 2) Individuals involved can be specifically identified with the project or activity;
- 3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- 4) The costs are not also recovered as indirect costs.

Items such as office supplies, postage, local telephone costs, department travel for administrative purposes, and memberships are normally treated as F&A costs. However, if such items can be identified as solely benefitting a specific grant or contract, they may be direct charged. It is the department's responsibility to maintain audit-ready documentation to support the direct charge.

Salaries and fringe benefits are allowed at a rate of 3.6 percent of MTDC if attributable to the administrative work (including bid and proposal preparation) of faculty (including department heads) and other professional personnel conducting research and/or instruction. This category **does not include** professional business or professional administrative officers. This allowance must be added to the computation of the F&A cost rate for major functions as described in the Uniform Guidance Appendix III, Section C, Determination and Application of indirect (F&A) cost rate or rates; the expenses covered by the allowance are excluded from the departmental administration cost pool. No documentation is required to support this allowance.

Other fringe benefit costs applicable to the salaries and wages incurred for administrative work attributable to administrative functions of the department are allowable as F&A costs, as well as an appropriate share of general administration and general expenses, operation and maintenance expenses, and depreciation and/or use allowances.

Federal agencies may authorize the reimbursement of additional costs for department heads and faculty only in exceptional cases where the institution can demonstrate undue hardship or detriment to project performance. Refer to UG Appendix III, (B)(6)(4)

c. Sponsored Projects Administration (SP)

Sponsored projects administration costs include costs incurred for the administration of sponsored projects including such functions as preparation and submission of proposals, contract negotiation, fiscal management, financial report preparation, billings and collections. These costs are allocated based on the MTDC for each sponsored activity. Only the Sponsored Projects Administration (SPA) and Research & Economic Development (R&ED) should have any activity under this F&A pool.

d. Student Services Administration (OA)

Student services administrative costs include costs incurred for the administration of student affairs and for services to students, including expenses of activities such as deans of students, admissions, registrar, counseling and placement services, student advisers, student health, catalogs, commencements and convocations. These costs are allocated to the instruction function.

However, since the institute does not calculate an instruction rate, these costs are currently coded to Other Institute Activity (OA). The result is the same because sponsored projects are not charged indirect cost under either category; in both cases, the expenses are never captured and allocated through the F&A process.

### III. Allocation Bases

#### A. Space Utilization Study

The space utilization study is conducted no less often than every two years and is an essential component in formulating Tech's F&A cost rate. The expenditures in the various cost pools and major functions are increased by the allocation of facilities cost, which is based on the results of the space study.

Space is allocated on the basis of NASF, which is defined as the amount of usable square feet of space (excluding common areas such as hallways, stairwells, utility closets, and restrooms). Space is determined according to the users on a room or whole-building basis and coded to the cost categories in the following ways:

- Single-function buildings and capital improvements or equipment used in such buildings are allocated to the benefiting function.
- Multiple-function buildings and capital improvements or equipment used in such buildings are allocated to individual functions on the basis of NASF.
- Joint use of buildings, capital improvements, or equipment by more than one function relating to space is allocated to benefiting functions on the basis of the salaries and wages of the benefiting major functions.
- The use of the word "function" in the above descriptions applies to how the assets are used. It should not be confused with the term "major functions," which comprise the four denominator categories, as defined in the Uniform Guidance as Instruction, Organized Research, Other Sponsored Activities, and Other Institutional Activities.

#### B. Modified Total Direct Costs (MTDC)

Modified total direct costs are used as the allocation base for the following F&A pools: General Administration and General Expenses (GA), Departmental Administration (DA) and Sponsored Projects Administration (SP).

Modified total direct costs are equal to the total direct costs, less the following:

- Capital expenditures: buildings (including alterations and renovations) and equipment items costing \$5,000 or more with a useful life of more than one year;
- The portion of each subcontract greater than \$25,000;
- Rental costs of off-campus space; and
- Student tuition remission, scholarships and fellowships.

### **C. Category of Users (FTE)**

The Library (LI) cost pool is allocated first on the basis of the full-time equivalents (FTEs) of primary categories of users (i.e., students, professional employees, and other users). Each category is then further allocated to one or more of the major functions.

The amount in the student category is subsequently assigned to the instruction function (IN).

The amount in the professional employee category is assigned to the major functions in proportion to the salaries and wages of all faculty members and other professional employees applicable to those functions.

The amount in the other user category must be assigned to the other institutional activities function of the university. The institute's library materials are limited to science and technology and thus do not draw interest from the Socorro community.

## IV. Major Functions of NMIMT

Major functions consist of Instruction (IN), Organized Research (SR), Other Sponsored Activities (SO), and Other Institutional Activities (OA). These functions are also referred to as direct cost pools because they receive allocations from the F&A cost pools. The allocated amounts represent the numerator of the fraction that forms the rate structure for indirect cost recovery. The MTDC of the direct costs charged to the major functions become the **denominator** of the fraction that forms the rate structure for indirect cost recovery.

### A. Instruction (IN)

Instruction costs include all teaching and training activities of an institution. Except for research training separately budgeted for and classified as sponsored projects, this term includes all teaching and training activities—whether they are offered for credits toward a degree or certificate or on a non-credit basis, and whether they are offered through regular academic departments or separate divisions, such as a summer school division or an extension division.

Departmental research is also considered part of instruction. Departmental research is funded from budgets that are not restricted to a specific project which includes, but is not limited to, bridge funding for researchers in between research projects and start-up funding. It does not include research activities that meet the definition of Organized Research, below. Refer to UG, Appendix III, Section (A)(1)(a)(2).

### B. Organized Research (SR)

Organized research means all research and development activities of an institution that are separately budgeted and accounted for. These are projects that require a proposal or other application to obtain funding, have a defined scope of work associated with the project, anticipate a “deliverable” result and may require that periodic financial and progress reports be submitted to the sponsor. UG Appendix III, Section (A)(1)(b)(1) It includes:

- Research and development, meaning all research activities, both basic and applied, and all development activities that are supported at universities. “Research” is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. “Development” is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Refer to Uniform Guidance 200.87.
- Research can also be described as pursuing new knowledge, understanding existing knowledge or testing/proving existing knowledge.

- University research projects funded with institute funds, which are separately budgeted, administered, and accounted for by R&ED (e.g., the Geophysical Research Center).
- Research cost sharing, which is defined as cost sharing related to organized research projects. This activity does **not** include voluntary uncommitted cost sharing (VUCS) expenses. However, space used for VUCS should be coded to SR. The government allows for facility cost recovery for VUCS since the cost share was not required or proposed as an inducement for award. Expenses – No; Space – Yes.

### C. Other Sponsored Activities (SO)

These activities encompass programs and projects financed by federal and nonfederal agencies and organizations that involve the performance of work other than instruction and organized research. Examples of other sponsored activities include sponsored training grants, public service projects, and public service conferences. Sponsored training refers to specific instructional or training activities established by grant, contract, or cooperative agreement.

When any of these activities are undertaken by the institution without outside support, they may be classified as other institutional activities (UG Appendix III, Section (A)(1)(c))

### D. Other Institutional Activities (OA)

These activities include auxiliary enterprises, such as the operations of residence halls, dining halls, student unions, intercollegiate and intramural athletics, bookstores, faculty housing, student apartments, guest houses, theaters, public museums, community relations and development, and other similar auxiliary enterprises.

Currently the cost category also includes student-related activities, such as counseling and career guidance, student advising, student publications, financial aid, admissions, registrar, student health services, and commencement. These student-related activities are considered Student Administration and Services (UG Appendix III, Section (B)(9)). In the Space Study, space for Student Administration and Services should be coded (SS). That coding will be added to OA for F&A purposes.

## V. Facility and Administrative Cost Rates

The institute's Cost Accounting Office calculates on- and off-campus facility and administrative cost rates for each type of sponsored activity using actual costs incurred. Separate on- and off-campus rates are calculated for EMRTC as well as a facility support rate for use of the testing range.

Off-campus is defined as effort performed in a facility not owned or operated by the institution. Grants or contracts cannot have both an on-campus and an off-campus rate on the same award.

NMIMT uses off-campus rates for sponsored projects that are conducted (1) in leased facilities where space related costs, e.g. rent, utilities and maintenance, are charged directly to the project, or (2) in facilities made available at no cost to the project by another university or by a non-University organization, or (3) away from NMIMT over an uninterrupted period in excess of ninety (90) days.

The CAO must submit detailed calculations and proposed rates to NMIMT's cognizant federal agency (the Office of Naval Research [ONR], as of this writing) for review and approval. The federal agency and the Senior Staff Accountant, working on behalf of the institute under the direction of the Director of Sponsored Projects, negotiates and agrees on a rate and applicable time period. These rates are also applicable to non-federally sponsored programs. The institute's federally approved facility and administrative cost rates for sponsored projects and programs are available on Tech's website.

### A. Implementing New Facility and Administrative Cost Rates

When new facility and administrative cost rates are approved, SPA negotiates amendments with funding agencies to modify ongoing contracts, grants, and other agreements to reflect the new rates. Amendments are **not negotiated** when:

- The old rate remains fixed during the award, or
- The use of new rates is automatically authorized by contract, grant, and other agreement provisions.

## **VI. Proposals to Funding Agencies**

Proposals submitted to federal and nonfederal agencies must include facilities and administration costs as generated using the rates available on NMIMT's website.

### **A. Exceptions to the Institute's Federally Approved F&A Cost Rates**

Some sponsors may possess published guidelines prohibiting or limiting the recovery of F&A costs. If the chairperson, dean, and/or director consider the program desirable, the Vice President of Administration and Finance may approve the use of a lower rate or amount. To request approval, the PI must include justification with the completed proposal routing sheet. He or she must immediately report to SPA any objection, refusal, or undue delay by a sponsor to recognize and/or incorporate the federally approved F&A cost rates.

## **VII. Facility and Administrative Cost Rate and Recovery Responsibilities**

### **A. Sponsored Projects Administration Cost Accounting Office**

The SPA CAO is responsible for:

- Conducting the space survey with the campus-wide cooperation of NMIMT personnel most familiar with functional use of the space,
- Processing and collecting Personnel Activity Reports (PARs),
- Preparing the F&A actual study to compare with the proposed and approved rates for the same fiscal year. Any difference between proposed and actual rates forms the basis of a carry-forward adjustment in future rate years.
- Preparing the F&A cost rate proposal for the next fiscal year,
- Negotiating the F&A cost rates with the cognizant federal agency which includes liquidating carry-forward adjustments from prior years,
- Distributing the approved rate agreement to the campus, and
- Acting as liaison with federal, and in some cases nonfederal, auditors.

### **B. Principal Investigator**

Each PI is responsible for including F&A costs at the institute's approved rate (listed on <http://www.nmt.edu/sponsored-project-administration/policies-and-procedures>) in each proposal for external funding. All exceptions must be approved per Section VI.A, herein.

### **C. Sponsored Projects Administration**

The Sponsored Projects Administration is responsible for:

- Providing information to PIs about F&A cost rates and policies,
- Reviewing and approving proposals and awards to ensure the inclusion of F&A cost rates,
- Calculating, recording, and billing facilities and administration costs at the approved rates, and
- Reviewing contract and grant awards when F&A cost rates change to determine whether the awards should be amended.

### **D. Vice President for Administration and Finance**

The Vice President for Administration and Finance is responsible for:

- Reviewing and signing certifications for F&A cost rate proposals,
- Determining the allocation of recovered F&A costs, and
- Approving any exceptions to federally approved F&A cost rates.

## VIII. Sponsored Activities

There are different F&A cost rates associated with each type of sponsored activity listed below.

### A. Sponsored Research (SR)

Sponsored research consists of all research activities funded by grants, cooperative agreements, or contracts from federal or nonfederal sponsors. Examples include, but are not limited to, the following:

- Awards in support of basic and applied research,
- Research training grants, and
- Faculty career awards to support the faculty's general research efforts.

### B. Other Sponsored Activities (SO)

Other sponsored activities (generally referred to as public service) are programs and projects funded by grants, cooperative agreements, or contracts from federal and nonfederal sponsors, which involve the performance of work other than sponsored instruction or sponsored research. Examples include, but are not limited to, the following:

- Support for conferences, seminars, or workshops,
- Library projects, such as cataloging or establishing library databases,
- Technical assistance projects,
- Information compilation or dissemination, and
- Projects in support of the institute's public service activities.

**IX. Allocation of Recovered Facility and Administrative Cost**

Costs that benefit externally funded research projects occur first, and then the recovery process starts. The recovery process includes an extensive audit of **actual** incurred and recorded expenses by the Defense Contract Audit Agency (DCAA) and rate recovery negotiation between the institute and the Office of Naval Research (ONR). **Because this process involves the recovery of costs already experienced, the federal government does not dictate how the recovered funds may be used.**

Revenue resulting from the recovery of F&A costs allowed on sponsored research projects is recognized by NMIMT as “unrestricted” income. The institute’s objective is to maximize the use of this source of revenue for the benefit of the institute’s research mission and infrastructure requirements. The President and Vice President for Administration and Finance are responsible for the overall allocation plan for facility and administrative cost recovery revenue.

## **X. References**

Code of Federal Regulations Title 2: Grants and Agreements Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards

Facilities and Administrative Cost Rate Agreement between Tech and the Office of Naval Research