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 code correctly 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 contractual services to the federal government incur costs directly and indirectly associated with providing the contractual 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 describe how to code correctly the transactions that impact this process. The federal government policies, as defined in the Office of Management and Budget’s (OMB) Circular A-21, are used by universities to document indirect costs and add them to the total funding requirements. These indirect costs are also 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 other awards.

Facilities and administration rates are listed at http://www.nmt.edu/sponsored-project-administration/policies-and-procedures. The rates are a fraction applied to the modified total direct costs (MTDCs) of a sponsored project or program. The cost category codes discussed in the manual 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 receives a portion of F&A costs that the government does not reimburse. (See Section III. B of this document more information about MTDCs.)
II. Facilities and Administration Cost Components - F&A Cost Pools

The Office of Management and Budget's *Circular A-21* 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" (Section B.4). Some examples of F&A costs are shown in the following table.

<table>
<thead>
<tr>
<th>F&amp;A Cost Category Example</th>
<th>Cost Category Code</th>
<th>Allocation Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>building, equipment and capital improvements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>usage allowance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>operation and maintenance expenses</td>
<td>OM</td>
<td>Space Study</td>
</tr>
<tr>
<td>general and administrative expenses</td>
<td>GA</td>
<td>MTDC</td>
</tr>
<tr>
<td>library expenses</td>
<td>LI</td>
<td>User/FTE</td>
</tr>
<tr>
<td>departmental administration expenses</td>
<td>DA</td>
<td>MTDC</td>
</tr>
<tr>
<td>sponsored projects administration expenses</td>
<td>SP</td>
<td>MTDC</td>
</tr>
<tr>
<td>student services administration expenses</td>
<td>OA</td>
<td>MTDC</td>
</tr>
</tbody>
</table>

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

Building and capital improvement (which includes land and building improvement) costs are calculated using the straight-line basis of depreciation over a 40-year useful life according to the results of a space study performed every other year by NMIMT’s CAO. More information about the space study can be found in documents located at NMIMT’s Cost Accounting Office’s Web site.

Equipment costs are calculated using “useful life” periods of either five or twelve years on a straight-line basis of depreciation. 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, per the space study performed no less often than 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). Buildings and/or equipment must be in use to qualify (OMB Circular A-21, Sections F.2 and J.14).

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

b. Interest

This category can include interest costs 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 (OMB Circular A-21, Section F.3). Universities are entitled to the recovery of interest costs, but at the current time, the 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 the 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 or use allowances, and interest costs. These costs are allocated to the appropriate indirect cost pool and major function based on the NASF occupied (OMB Circular A-21, Section F.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 Section C.5 of OMB Circular A-21. 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 (OMB Circular A-21, Section F.8).

B. Administrative Component
Facilities and administration costs in the administrative component are allocated based on MTDCs as defined in Section III. B herein.

a. General and Administrative (GA)
General and administrative costs include costs incurred for the central administration or institutional support of the institute. This administration and support is provided by the Board of Regents, the President’s Office, the Vice Presidents’ 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 based on modified total costs for instruction, sponsored activities, other institutional activities, and other facility and administrative cost pools (OMB Circular A-21, Section F.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. These costs are allocated based on the MTDC of each sponsored activity and instruction. Examples include administrative duties, such as serving as department head, or grant and contract proposal preparation for the solicitation of an outside sponsor (OMB Circular A-21, Section F.6).
When charging costs to departmental administration, 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. should 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 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. However, the direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and if the individuals involved can be specifically identified with the project or activity. It is the department’s responsibility to maintain audit-ready documentation to support the direct charge. "Major project" is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments.

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 dedicated to 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% 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 is added to the computation of the F&A cost rate for major functions in Section G of OMB Circular A-21—the expenses covered by the allowance are excluded from the departmental administration cost pool. No documentation is required to support this allowance. The CAO is responsible for 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.
c. **Sponsored Projects Administration (SP)**

Sponsored projects administration costs include costs incurred for the administration of sponsored projects (e.g., preparation and submission of proposals, contract negotiation, fiscal management, financial report preparation, and 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 function (*OMB Circular A-21*, Section F.7).

d. **Student Services Administration (OA)**

Student services administration costs include costs incurred for the administration of student affairs and student services, which include admissions, registration, counseling and placement services, and student advisement. These costs are allocated based on the MTDCs for instruction. *OMB Circular A-21* allows these costs to be collected in a cost pool under the administrative component and then allocated directly to the Instruction (IN) major function. However, since the institute does not calculate an Instruction rate, these costs are 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 charges are never part of the numerator (*OMB Circular A-21*, Section F.9).
III. Allocation Bases

A. Space

A space study conducted no less often than every two years serves as the base for allocating the facilities costs to institute activities—including organized research and other sponsored activities—in compiling the F&A rate for grants and contracts. All cost pools and major functions are increased by the allocation of facilities cost, which is based on the results of the space study. It is an integral and extremely important part of the overall F&A calculation. The results of the space survey should correlate closely with the overall cost bases of the institute.

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 comprises the four denominator categories, defined in OMB Circular A-21, Section B.1, as Instruction, Organized Research, Other Sponsored Activities, and Other Institutional Activities.

B. Modified Total Direct Costs (MTDCs)

Modified total direct costs are used as the allocation base for 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;
- space rental costs; and
- student tuition remission and student support costs (e.g., student aid, stipends, dependent allowances, scholarships, fellowships, etc.). These costs do not include payments for services rendered, e.g., research assistant tuition.
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, employed graduate students, and other professional employees of the institution applicable to those functions.

The amount in the other user category is not used. 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 become the numerator of the fraction that forms the rate structure for indirect cost recovery. The MTDCs 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 (OMB Circular A-21, Section B.1.a).

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 (OMB Circular A-21, Section B.1.b). 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 OMB Circular A-110, Subpart A-General, Section 2(dd) and OMB Circular A-133, Subpart A-General Section 105)

- Research can also be described as pursuing new knowledge, understanding existing knowledge or testing/proving existing knowledge. (Refer to OMB Circular A-110, NMIMT Administration and Finance || Sponsored Project Administration
B University research projects funded with institute funds, which are separately budgeted, administered, and accounted for by R&ED (e.g., the Geophysical Research Center).

B 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 (OMB Circular A-21, Section B.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 (OMB Circular A-21, Section B.1. (d)). 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 (see Section VIII, herein) 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 normally not owned or operated by the institution and in which facility costs (e.g., rental costs and/or utilities and maintenance) are direct charged to the activities taking place in the facility. Grants or contracts issued to academic departments will not be subject to more than one F&A cost rate. If more than 90% of a project is performed off campus, the off-campus rate will apply to the entire project.

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 Cost Accountant, working on behalf of the institute under the direction of the Director of Restricted Funds, negotiate and agree 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 listed at http://www.nmt.edu/sponsored-project-administration/policies-and-procedures.

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 cost rates listed on [http://fe](http://fe).

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 the 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 & Finance are responsible for the overall allocation plan for facility and administrative cost recovery revenue.
X. References


Rate Agreement between Tech and the Office of Naval Research (the cognizant agency representing the federal government).