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A Note Concerning the Recovery of Facilities and Administrative Costs of Sponsored Programs

The operation of any program at UMass Boston involves two kinds of costs: namely, **specific costs** that can be clearly identified and attributed to the program (e.g., salaries, equipment, supplies, travel expenses), and **general costs** of operating the university that are shared by all programs (e.g., building maintenance, utilities, support of the library, technology infrastructure, HR services, campus security). When the program is sponsored by an extramural funding source, the general costs are further organized into two components: (a) the construction, maintenance, and operation of the university **facilities** in which the sponsored program is conducted; and (b) the **administrative** services of the university that support the sponsored program, such as human resources, procurement, central and departmental research administration, laboratory safety monitoring, and the operation of institutional review boards. For this reason, the general costs of sponsored programs are known as **facilities and administrative costs** or **F&A**¹.

UMass Boston dollars committed to the general costs of operating the university benefit all sponsored programs and these costs must be allocated to sponsored programs in some way. Rather than determine the general cost allocation for each sponsored program—an extremely time consuming and complex task—UMass Boston, like all colleges and universities, uses a government approved **F&A cost recovery rate**. The F&A rate is applied to the specific cost of each sponsored program during proposal development to determine the allocation of the university's general costs to proposed program.

UMass Boston does not itself determine the F&A cost recovery rate. The rate is negotiated every 3 years between the university and its designated cognizant federal agency, the U.S. Department of Health and Human Services (DHHS), based upon actual cost records maintained by the university. The rate calculation follows the federal rules and regulations² that govern grants, contracts, and cooperative agreements. UMass Boston prepares its F&A rate proposal and submits it with voluminous supporting materials to its cognizant agency for audit review.

¹ Before 1996, these costs were referred to as indirect costs or overhead costs.

² These rules and regulations are set out in the U.S. Office of Management and Budget Circular A-21: *Cost Principles for Educational Institutions*.

The F&A rate is negotiated with DHHS and a written agreement is reached and formally approved³.

The F&A cost rate for an institution is based upon a complex set of cost accounting principles and its calculation is unique to the cost structure of each institution (e.g., differences in salaries and benefits, facility age, energy costs, bond ratings). In addition, there is wide variation from institution to institution in the allocation of general costs to the operation of sponsored program activities. For these reasons, UMass Boston's F&A rate has little meaning by itself and cannot be compared to the rate approved for use by another university.

At present, UMass Boston has only one approved rate for sponsored programs, but that rate is applied in two contexts. The government approved F&A rate is applicable to nearly all sponsored programs conducted by UMass Boston faculty, staff, and students because they use the university's buildings and equipment, libraries, general and departmental administration services, and research support and administrative services. Consequently, it is appropriate to recover from the sponsor both the facilities costs and the administrative costs associated with the sponsored program. Some sponsored programs, however, are conducted at remote off-campus locations in facilities that are not owned and operated by the university. In such cases, it is appropriate to recover from the sponsor only the administrative costs associated with the sponsored program. That is, the costs associated with the operation and maintenance of the university's physical plant and the costs associated with the library should not be recovered from the sponsor. The so-called **off-campus F&A rate** is actually the university's approved F&A rate with only the "A" portion applied. The decision of whether the full (on-campus) or partial (off-campus) F&A rate applies is made by ORSP, and is explained in detail in *A Note Concerning On-Campus and Off-Campus Facilities and Administrative Costs Recovery Rates*.

For federally-sponsored programs, UMass Boston recovers F&A costs based upon the **modified total direct cost (MTDC)** method. The MTDC of a sponsored program includes all salaries and wages, fringe benefits, materials, supplies, communications, services, travel, and subgrants or subcontracts up to the first \$25,000 of each subgrant or subcontract. Direct cost items excluded from MTDC—hence the qualifier *modified* total direct costs—are equipment, capital expenditures, charges for patient care, student tuition remission, rental costs of off-site facilities, scholarships, and fellowships, as well as the portion of each subgrant and subcontract in excess of \$25,000. The MTDC is calculated and entered into the proposal budget and then multiplied by the approved F&A rate to determine general cost recovery for the proposed sponsored program.

Non-federal entities that support sponsored programs include state and local governments and non-government organizations, private non-profit organizations, foundations, for-profit business and industry, and international governments and organizations. For these non-federal sponsors, UMass Boston recovers F&A costs based upon **total direct costs (TDC)** unless the

³ The current F&A rates are available on the ORSP Web page.

sponsor specifically stipulates in its guidelines that the MTDC method must be used. If UMass Boston is a subcontractor to an entity that received its money from a federal agency, then our F&A costs are recovered from the prime contractor using the MTDC method. Examples of this so-called **federal flow-through** funding include Small Business Innovation Research grants and some U.S. Department of Education grants to local school districts.

Federal rules concerning grant making specifically exclude any provision for profit⁴; that is, charging for expenses above the actual F&A costs associated with federally sponsored programs. However, these rules do not apply to for-profit entities, which can be charged *more than* UMass Boston's approved federal F&A rate if in so doing the true and auditable costs of conducting the sponsored program will be recovered from the sponsor.

It is the policy of the University of Massachusetts⁵ that each campus will include full F&A cost recovery in the budget of all proposals being submitted to external funding agencies. An exception to the F&A cost recovery policy may be warranted if it is clearly in the best interest of the university to accept the award of a particular sponsored program with less than full F&A cost recovery. The approving authority for an exception to the F&A cost recovery policy is the authorized organizational representative (AOR); at UMass Boston, the AOR is the vice provost for research. The following two F&A cost recovery exceptions are currently considered by the AOR on a case-by-case basis:

- A. For a sponsor that has a published policy limiting or restricting the rate of F&A cost recovery, the sponsor's published rate may be approved. In the case of some private foundations, the recovery of F&A costs may be specifically prohibited (i.e., the allowable F&A rate is 0.0%). The PI must include a copy of the sponsor's program announcement, published policy, or written communication from an official of the sponsor stating the F&A cost recovery rate restriction when the proposal is submitted to ORSP for review. The AOR, in consultation with university leadership, will decide if it is in the best interest of the university to submit the proposal.
- B. In the absence of a published sponsor policy concerning the rate and method of F&A cost recovery, all proposals for grants, contracts, and cooperative agreements with local and state governmental units in the Commonwealth of Massachusetts and all non-profit organizations shall include an F&A rate of **not less than 15% of TDC**. If the sponsored program is a subaward in which the sponsor funds are federal flow-through funds, then the university's approved federal F&A rate will apply to MTDC.

⁴ F&A costs are subject to annual audit by the federal government under OMB Circular A-133: *Audits of States, Local Governments, and Non-profit Organizations*.

⁵ UMass Board of Trustees policy #T94-034, *Policy for the Development and Administration of Grants, Contracts, and Cooperative Agreements for Sponsored Programs*.

The F&A cost recovery for a sponsored program that is approved by the AOR under one of the two cases listed as potential exceptions may be less than the amount that would have been recovered using UMass Boston's approved F&A rate. But this does not imply that the F&A costs of the sponsored program are not real costs. These unrecovered F&A costs result in a drain of budget resources that support core university functions. In effect, UMass Boston is subsidizing the sponsored program with other discretionary funds⁶.

If a request for an exception to the F&A cost recovery policy is not approved by the AOR, the PI may nevertheless request that a rate less than the university's approved F&A rate be used. In this case, one or more responsible parties must indicate by signing the UMass Boston proposal routing form a willingness to provide the cash equal to the amount of F&A costs that will not be recovered from the sponsor. The speed type number for the fund from which the cash will be taken must be provided on the proposal routing form that is submitted to ORSP. Responsible parties are those who have authorization to commit university budget and include department chairpersons, unit directors, deans, and division vice chancellors.

This note has concerned the general costs of the university that are allocable to the operation of sponsored programs and recovered by the application of UMass Boston's negotiated and approved F&A cost recovery rate. Any direct costs of a specific sponsored program that are shared by the university must be included in the denominator of the F&A rate calculation formula, effectively reducing the F&A rate. Not only does the university not charge for the specific cost of conducting this sponsored program when it shares allowable costs, but the consequent reduction in the F&A rate prevents the university from recovering the general costs of conducting **all** future sponsored programs. Because the consequences of cost sharing are profound for both the PI and for the university, in depth information about the UMass Boston policy and procedures are provided in *A Note Concerning Cost Sharing*.

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⁶ In some cases, the ORSP professional staff may attempt to include in the proposal budget as a cost that is being shared the difference between the F&A costs that will be recovered and the university's actual F&A costs for the sponsored program. This requires the approval of the sponsor in advance of the proposal submission. Often, however, the sponsor may prohibit showing unrecovered F&A costs as cost sharing.