



Office of Academic Grants and Sponsored Research

***Guidelines for
Indirect Cost Recovery Rates Application and
Indirect Cost Recovery Distribution***

Purpose

This guide is intended to be a reference guide for principal investigators as they plan their grant/award budgets. The guide will help PIs understand the importance of indirect cost recovery and how it affects their projects and the College as a whole. Additionally, the guide will help PIs ensure that the appropriate indirect cost rate is applied for all programs/activities.

Introduction

Research and other sponsored activities initiated at the College provide important support for our institutional mission. Funding sources for such programs are the federal government, state and local governments, and private entities. Each of these funded activities or programs includes “direct costs” that are generally covered by the funding source. Direct costs can be linked specifically to a particular grant/award agreement, project, function, or activity. Typical costs charged directly to grants/awards are the compensation of employees who work on that award, their related fringe benefit costs, the costs of materials and other items of expense incurred for the award.

In addition to “direct costs,” there are also “indirect” costs associated with implementing funded activities. Indirect costs, also known as Facilities and Administrative Costs (F&A) or overhead costs, are the costs of doing business and conducting activities that are necessary for the day-to-day general operation of the College.

These F&A costs are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. Indirect cost recovery from grants/awards helps cover the costs of administering and supporting grant funded work and fulfilling all of the requirements of research conduct at the College. It is important to note that funds obtained through F&A do not represent “profit” to the institution; rather, F&A costs are expenses that the College would otherwise incur and absorb to help support grant/award projects.

It is not possible to determine exactly how much of each of these costs is the direct result of implementing a particular grant/award agreement; hence, they are identified as “indirect” to all grants/awards.

Classification of Indirect Costs

For major IHEs (TCNJ included), indirect (F&A) costs must be classified within two broad categories: “Facilities” and “Administration.” “Facilities” is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. “Administration” is defined as general administration and general expenses such as the director's office, accounting, personnel, and all other types of expenditures not listed specifically under one of the subcategories of “Facilities” (including cross allocations from other pools, where applicable).

The remainder of this guide will answer some common questions about F&A rates that will have an impact on grants/awards pursued by principal investigators on behalf of the College.

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1. What is a F&A cost rate?

An indirect cost rate is a way of determining fairly and conveniently, within the context of sound administrative principles, what proportions of departmental/organization administration costs each program should bear. An indirect cost rate represents the proportion of total indirect costs to total direct costs, after excluding and/or reclassifying certain other costs (*e.g.*, capital expenditures).

Sponsored Projects Administration (SPA) sets F&A rates with the federal government based on formulas and negotiation processes set forth in 2 CFR 200.

2. What are TCNJ's currently approved F&A cost rates?

The following F&A cost rates are pre-approved by the College:

Standard Full F&A Cost Rate

- **65.0 percent:** This is TCNJ's federally negotiated F&A rate for programs/projects conducted on-campus. The rate is in effect for the period from July 1, 2013 through June 30, 2016. The rate is applied on a base of salaries and wages, excluding fringe benefits. On-campus locations include space in buildings owned or leased by the College. The on-campus designation indicates that any reimbursement of facilities-related costs will occur indirectly, through the application of the F&A rate that includes those costs, rather than through a direct space charge. **Note: This standard rate should be applied to all grant/award agreement budgets, including those funded from non-governmental sources, except where expressly disallowed by the funder or in consideration of one or more of the circumstances in Question #7 below.**

The negotiated rates must be accepted by all Federal awarding agencies. A Federal awarding agency may use a rate different from the negotiated rate for a class of Federal awards or a single Federal award only when required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification.

Acceptable Alternative Full F&A Cost Rates (only where the standard rate may not be applied)

- **49.8 percent:** This rate is for non-government grants/awards where no maximum allowable F&A rate is established by the funder. The rate is applied on a base of salaries and wages, fringe benefits, materials and supplies, services, travel, and up to \$25,000 on each subaward. (Such items/costs as equipment, student tuition/scholarship, and rental costs are excluded from the base.)
- **15.3 percent:** This is TCNJ's federally negotiated F&A rate for programs/projects conducted off-campus (at least 50 percent off-campus). The rate is in effect for the period from July 1, 2013 through June 30, 2016. The rate is applied on a base of salaries and wages, excluding fringe benefits. Off-campus locations include space that the College does not own or lease. The off-campus designation indicates that any reimbursement of facilities-related costs will occur directly, through a direct space charge, rather than indirectly through the application of a F&A rate that includes those costs. The "off-campus" designation does not refer to field work.

No single grant/award agreement shall be subject to more than one F&A cost rate. If more than 50 percent of the work performed by the College on a project is conducted off-campus, the off-campus rate will apply to the entire project.

Partial F&A Rates (approval for use required by the Office of Academic Grants and Sponsored Research)

- **35.0 percent:** This rate is for non-government grants/awards where no maximum allowable F&A rate is established by the funder. The rate is applied to the total program/project budget, including salaries and wages, fringe benefits, materials and supplies, services, travel, total subawards, equipment, student tuition/scholarships, and rental costs.
- **8.0 percent:** This minimum rate should be applied only when no higher rate (as identified above) is applicable, appropriate, or allowable. If the funder sets a maximum allowable F&A rate, the principal investigator should request that maximum rate in order to allow for the greatest possible indirect cost recovery, *i.e.*, to minimize the operational expenses to the College.

3. What are the responsibilities of a PI regarding F&A costs?

Principal investigators are responsible for including F&A costs in their proposals for sponsored projects funded by external entities. Principal investigators must use the federally negotiated F&A rate for all sponsored projects, unless an exception has been granted in advance of proposal submission or it meets the criteria for a reduced rate.

Principal investigators are not authorized to negotiate a reduction in the F&A rate or waiver of indirect costs with a funder on any sponsored project without prior approval. Principal investigators may petition for such F&A reductions for a single project. (See "[How do I request a waiver for all or part of the published F&A cost rate?](#)")

4. How are recovered F&A cost funds distributed?

F&A cost recovery, generated by F&A cost rates applied to external funds, must be shared by the schools substantially contributing to the work of a sponsored project and is also shared among

departments contributing to the work of a sponsor project, usually in proportion to their contribution. Units must document F&A cost sharing arrangements at time of proposal review and submission.

At TCNJ, the recovery of F&A costs from sponsored activities is normally allowed based on the approved institutional negotiated rate with the cognizant federal agency. Until Fiscal Year 2002, 100 percent of recovered F&A costs went to the College's general funds. As an incentive for faculty, departments, and schools to develop and submit competitive proposals to external sponsors and to promote other scholarly activities, the recovered F&A costs are now allocated to academic departments/centers, schools, and principal investigators. Currently, the total resources generated by the F&A costs through a grant/award agreement are distributed as follows:

Area/Unit	Allocation %
ADMINISTRATION	
College (general funds)	30%
Academic Affairs	25%
Grants Office	5%
ACADEMIC UNITS	
School	25%
Department/Center	10%
Principal Investigator*	5%

*If the PI is a staff member, his/her share of funding goes to the Department/Center.

The above distribution scheme was approved by the Dean's Council, vetted by the Academic Leadership Council, and approved by the Provost on July 7, 2014.

The share of F&A received by the school, department/center and the faculty PI is intended for enhancement of future grant acquisition, covering project costs that had to be removed at the proposal stage and for support to research and creative activity efforts.

Faculty PIs will be given access to their own budgets containing their share of the F&A. Specific expenditures from these budgets require approval by the cognizant dean before processing.

The Office of the Treasurer may negotiate an alternate model of indirect cost recovery distribution for certain campus operations, *e.g.*, institutes, centers, etc., as deemed appropriate by that Office.

Note: Each dean, at his/her discretion, may allocate the school F&A cost recovery allocation to the responsible principal investigator(s).

5. When will recovered F&A cost funds be distributed?

Distributions of recovered F&A cost funds will be made by the TCNJ Office of Finance and Business Services subsequent to the closing of each fiscal year. This will allow for an audit of expenditures related to each program.

6. For what purposes may recovered F&A cost funds be used?

F&A funds distributed to schools and departments may be used for any purpose for which College general funds may be expended consistent with State regulations and College policies.

7. Under what circumstances may a reduced F&A cost rate be considered?

Some flexibility in the F&A cost rate is required if the research enterprise is to grow and prosper, and in order to build overall institutional capacity.

There are some circumstances that qualify for consideration as exceptions to the applicable standard or approved alternative full F&A cost rates. Such circumstances include those listed below. This list is not exhaustive, and the presence of one or more of these conditions does not guarantee that a rate reduction will be granted. All requests are reviewed on a case-by-case basis.

- The funder has a published policy restricting or prohibiting payment of full indirect costs and/or administrative fees. *(A copy of such policy must be provided to OAGSR. If no such policy exists in writing, a letter stating the restrictions on indirect cost reimbursement from the sponsoring agency's program officer may be substituted.)*
- The benefit of the proposed project to the College, in terms of institutional capacity building, is deemed to outweigh the loss of indirect cost revenue.
- The project is funded as a "seed grant," which may attract larger subsequent awards. (Typically, these waivers are approved with the stipulation that all future funding on the project will carry full F&A rate).
- The funder provides one of very few available sources of funds in the area/discipline/subject of the proposed project.
- The assessment of the full indirect cost rate on a project with a maximum allowable total cost would reduce the amount of direct funds available for project implementation to such an extent that the scope of work or deliverable could not be accomplished.
- The funding agency does not require matching funds. *(A requirement for matching funds will increase the financial burden to the College for supporting a grant with a reduced F&A rate.)*
- The grant is intended to offset pre-existing College operating expenses (*i.e.*, no new direct expenses will be incurred as a result of the award).
- Grant funds will primarily support student tuition (scholarship) and/or will include funding for equipment and/or facilities.
- For non-capital asset grants, no new equipment is needed for the grant unless wholly and directly funded by the grant.
- The grant does not involve subawards from TCNJ to other entities.
- There are no extraordinary research and/or fiscal compliance requirements associated with the program.
- The grant is relatively small and will not place a significant burden on existing College infrastructure or resources, *e.g.*, minimal IT maintenance/data storage needs, no new office space is needed, etc.

The College will not grant a F&A cost rate reduction or waiver if the principal investigator did not submit the grant/award proposal via approved institutional channels (*e.g.*, through OAGSR or other approved institutional channel) prior to submission to the funder. In this case, one of three options will apply: (1)

the funder will be expected to pay the full applicable F&A rate, (2) the department will be responsible for cost-sharing that portion of the F&A the sponsor refuses to pay, or (3) the proposal will be withdrawn or award (if offered) declined.

8. How do I request a waiver for all or part of the published F&A cost rate?

If you are seeking to use a reduced indirect cost rate, or if you are seeking to have the F&A costs waived entirely from a grant/award agreement budget, contact the Office of Academic Grants and Sponsored Research (OAGSR) as early in the budget development process as possible. OAGSR staff will help determine the appropriateness and allowability of a reduced (or waived) indirect cost rate. As appropriate, OAGSR staff will consult with the cognizant dean and/or chair and the Vice Provost regarding the requested reduction in the F&A rate in the context of the larger value of the program/project to the College.

9. How will a reduced F&A cost rate affect my school/department?

Schools/departments that have more approved reduced F&A rates on grants/awards will recover fewer F&A funds. (See "[How are recovered F&A costs allocated?](#)") Therefore, each unit must carefully consider the amount of F&A cost recovery that it can forego for any program/project that generates less than the full F&A rate. Similarly, the College as a whole must carefully consider how much F&A cost recovery it can reasonably forego in supporting a grant/award, function, activity, etc.