



UNIVERSITY of
MASSACHUSETTS
BOSTON
100 Morrissey Blvd.
Boston, MA 02125-3393

Office of the Vice Provost
for Research
617.287.5600
Fax: 617.287.5616

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, 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 subsidize all sponsored programs and must be allocated to each sponsored program based on the benefit derived by that program. Rather than determine the 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**. In simplest terms, this rate is the ratio of the total general costs allocable to sponsored programs at the university to the total specific costs of sponsored programs². The F&A rate is applied to the specific cost of each sponsored program during proposal development to determine the allocation of general costs to be included as a line item in the budget.

UMass Boston does not itself determine the F&A cost recovery rate. The rate is negotiated periodically (i.e., 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 regulations³ 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. The F&A rate is negotiated with a representative of DHHS and a

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

² Certain specific costs of sponsored programs are excluded from this total cost pool as described in the discussion of MTDC later in this note.

³ These rules and regulations are set out in the U.S. Office of Management and Budget Circular A-21: *Cost Principles for Educational Institutions*.

written agreement is reached and formally approved with appropriate signatures for implementation at UMass Boston. Federal rules specifically exclude any provision for profit; that is, the recovery of expenses above the actual facilities and administrative costs associated with sponsored programs. Neither UMass Boston nor the sponsor can arbitrarily adjust the university's F&A cost recovery rate⁵.

Effective July 1, 2003, UMass Boston was approved by DHHS for the recovery of F&A costs based upon the **modified total direct cost (MTDC)** method. The MTDC of a proposed 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 in MTDC – hence the qualifier *modified* total direct costs – are equipment, capital expenditures, charges for patient care, 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 UMass Boston's approved F&A rate to determine general cost recovery for the proposed sponsored program.

The F&A cost recovery rate for an institution is based upon a complex set of federal 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 this reason, the F&A rate itself has little meaning and cannot be compared to the rate approved for use by another university.

Non-federal entities that provide support for sponsored programs include state and local governments, not-for-profit organizations and foundations, business and industry, and international governments and organizations. Most non-federal sponsors will accept UMass Boston's federally negotiated and approved F&A rate. However, a non-federal entity can be charged **more than** UMass Boston's approved federal F&A rate to reflect the true cost of conducting the sponsored program.

It is the policy of UMass⁶ that each campus will include F&A cost recovery at its negotiated and approved rate 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

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 The current F&A rates are available on the ORSP webpage. UMass Boston has one approved rate for sponsored programs conducted on campus and a second rate for sponsored programs conducted off campus. In the latter case, the general costs associated with the campus infrastructure (e.g., physical plant, energy, security, library) are not applicable to the off-campus program. Whether ORSP will apply the on-campus or the off-campus F&A rate to a sponsored program will be the subject of a future *Note* in this series.

⁶ UMass Board of Trustees policy #T94-034, *Policy for the Development and Administration of Grants, Contracts, and Cooperative Agreements for Sponsored Programs*.

authorized organizational representative (AOR); at UMass Boston, the AOR is the vice provost for research. The following two F&A rate exceptions are currently considered 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 or published policy stating the F&A cost recovery rate restriction with the proposal submitted to ORSP for review and a decision by the AOR on whether to submit the proposal.
- B. In the absence of a published sponsor policy concerning the rate of F&A cost recovery, all proposals for grants, contracts, and cooperative agreements with local governmental units in the Commonwealth of Massachusetts, Massachusetts-based businesses and industries, and Massachusetts-based nonprofit organizations shall include an F&A rate of **not less than** 10% of MTDC. 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.

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 funds⁷.

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 F&A rate be used to develop the proposal budget that is submitted to the sponsor. In this case, one or more responsible parties must indicate by signing the UMass Boston proposal routing form a willingness to provide the university with the cash amount 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 contribution will be taken must be provided on the routing form. 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

⁷ 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 real 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.

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consequent reduction in the F&A rate prevents the university from recovering the general costs of conducting **all** future sponsored programs. Cost sharing of sponsored programs will be the subject of a future *Note* in this series.

Richard F. Antonak
Vice Provost for Research
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