**PROCEDURAL STATEMENT**

**Policy Title:** Budgeting for Indirect Costs

**Functional Area:** Research Administration

**Effective Date: July 1, 2021 (original, September, 2018)**

**Approved by:** David Stone, Vice President for Research

**Responsible Body:** Research Office

**Purpose**

These are the established Oakland University policies and procedures regarding the recovery of facilities and administrative (F&A) costs, including exceptions to the general policy and procedures for requesting a waiver to the general policy.

**Reason for this Policy**

Costs on sponsored projects (grants or contracts) can be divided into two categories: (1) direct costs and (2) facilities and administrative (F&A or indirect) costs.

Direct costs can be readily and specifically attributed to the scope of work associated with a particular project or program. Direct costs typically include: salaries and benefits associated with the personnel who dedicate time and effort to conducting the work; supplies and equipment required to perform the work, and professional travel associated with completion or communication of the work. F&A costs - sometimes referred to as overhead or indirect costs - cannot easily be associated with a given project or program; nonetheless, these are real expenses incurred by the university in support of sponsored research and artistry.

F&A costs result from the university’s need to maintain a shared infrastructure that supports the research, scholarship, and artistry of all investigators and project directors. Examples of F&A costs include facilities costs (e.g. building depreciation, operation and maintenance, utilities, telecommunications and IT infrastructure, libraries, and specialized facilities and services) and administrative costs (e.g. personnel and infrastructure associated with sponsored project administration (The Research Office) and with other administrative functions of the university (general accounting, purchasing/procurement, legal services, human resources, administration of academic units).

The University negotiates its F&A rates with the U.S. Department of Health and Human Services. The rates are based on a review of institutional space, equipment, and human resources as they relate to sponsored activities on campus. We are assigned the rate we must use; rates are re-negotiated every five years.

Federal and state laws and regulations require that the approved F&A rate be applied consistently to all sponsored projects, and the university is scrutinized for compliance. Moreover, state and university policies strongly encourage OU investigators to perform sponsored projects on a full cost recovery basis unless full recovery is restricted by law or public policy. Projects that bring in less than the full amount of F&A amount to a subsidy of the sponsor by the University. In many cases, such subsidies run counter to federal accounting rules as well as University and State interests. Failure to recover allowable direct costs and F&A reduces the university’s capacity to perform sponsored research and support faculty scholarship.

**Policy**

It is the policy of Oakland University to apply the University’s full F&A rate to all externally funded projects. Externally funded projects include those projects where OU is the prime applicant as well as when OU is a subcontractor and funds are flowing to the university through another entity.

In accordance with the policy:

* Only the Vice President for Research (or designee) is authorized to modify F&A rates. Investigators and Project Directors are not authorized to modify the F&A rate. Any “prior understanding” between an investigator and a sponsor regarding F&A rate is not binding on the university.
* The on-campus F&A rate is applied unless it can be established that a majority of the project will be conducted in an off-campus location. Proper campus designation of a sponsored project is necessary to ensure the university is not over-charging or under-charging a sponsor for project costs.
* A limitation on the amount of funds available for a project from a sponsor is not in and of itself sufficient justification for a reduction or waiver of full F&A.
* For-profit sponsors will not be charged less than the full OU F&A rate on grants or contracts. As a not -for-profit, public research university, it is inappropriate for OU to allow its funds and facilities to subsidize projects conducted for the benefit of commercial sponsors. Investigators who are concerned about requesting the federally negotiated F&A rate from a private sector sponsor are encouraged to contact the Office of Sponsored Programs Grants and Contracts Officer for budgeting strategies.

F&A Exception

The appropriate, approved F&A rate will be sought on all sponsored projects irrespective of funding source. All sponsors are expected to pay full costs except where prohibited due to legislative, regulatory, or programmatic restrictions. Federal programs restricting full F&A recovery will identify the limitation in the Funding Opportunity Announcement (FOA).

Examples of Federal programs that *may* limit F&A include:

* Training grants
* Conference and travel grants
* Career development grants

If a government or non-profit sponsor has a published, consistently applied policy establishing a specific F&A rate for their project(s), OU will honor that rate. There is no need to apply for a waiver.

In the absence of a published rate, OU’s federally negotiated rate will be used.

If a commercial sponsor requires full ownership of intellectual property produced jointly under a grant or contract and these conditions are consistent with the investigator’s expectations, then an F&A rate significantly greater than the federally negotiated rate (up to 200% F&A rate) may be applied to the total project costs as specified by the Vice President for Research. It is inappropriate for OU to allow its funds and facilities to subsidize projects conducted solely or primarily to benefit commercial sponsors. Relevant examples of intellectual property may include the following: new or improved devices, circuits, chemical compounds, drugs, genetically engineered biological organisms, data sets, software, musical processes, or unique and innovative uses of existing inventions.

F&A Waivers

On a case by case basis, the Vice President for Research (or designee) may approve a reduction or complete waiver of F&A given sufficient justification. F&A waivers will be rare.

The following circumstances will be considered as part of any request to reduce or waive F&A.

* Selected start-up projects where it is anticipated that the collaboration will result in future growth of external funding.
* When F&A is an eligible category of cost-share.
* When the benefit to the University outweighs the loss of F&A. For example, the project represents an important university outreach effort or a mandated activity that the university would otherwise be paying for.
* When 80% or more of the project budget involve student assistantships and materials & supplies that support student activities.

Procedures

1. General Procedures

As a general rule, OU will apply its full indirect cost rate to all externally funded projects, whether it is the primary awardee or the subrecipient. Principal Investigators and/or their teams may not negotiate indirect costs rates with sponsors, and any such negotiations are never binding on the university. If there is a need to negotiate the indirect cost rate for a specific project, PI should notify their Grants and Contracts Officer and submit a request to the Vice President for Research, copying gcsradmin@oakland.edu.

1. Fixed Rates for the Life of the Sponsored Agreement

Per federal regulations (2 CFR 200: Section C.7.a Appendix III), OU must normally use the negotiated rate in effect at the time of the initial award, throughout the life of the award, even if a new rate is negotiated within that time period. This principle applies to supplements and continuations, as well. However, for competitive renewals, the indirect cost rate in effect at the time of proposal submission will be applied and continued throughout the life of the award.

1. Location of Work: Determining When to Apply the Off-Campus Rate

Proper documentation of the location of the work undertaken on a sponsored project is required to ensure that OU is neither over- nor under-charging a sponsor for project costs. The RDO and/or GCO, working together with the Principal Investigator, determine which rate is appropriate for a given project. This decision is documented in the Cayuse record and reviewing that decision is part of a PI’s responsibility when proposal documents are routed.

An off-campus rate, as defined in the indirect cost rate agreement with DHHS, is permissible – and, indeed, required- when the work does not incur any physical plant operations and maintenance costs. Operationally, this requires that the funded activity must take place, either completely or substantially, in facilities that are not owned or operated by OU. To make this determination, at least one of the following criteria must be met:

* The entire scope of work occurs in an off-campus location.
* The funded activity occurs in an off-campus location for at least 30 calendar days
* Less than 50% of the direct costs are incurred on campus. Costs are considered to be on campus if University facilities, equipment, supplies, personnel, or any other resources are involved in the work.

Waiver requests should be emailed directly to the Vice President for Research (dstone@oakland.edu) and copied to gcsradmin@oakland.edu. The argument put forward by the PI should focus on why it is in OU’s strategic interest to forego the revenue generated by F&A. The Vice President Research will, at his discretion, gather a committee for reviewing the request and making a recommendation. GCOs are cautioned that it is NOT appropriate to coach a PI as to the best way to achieve an indirect cost waiver.

Roles and Responsibilities

**Principal Investigator**: Ensure the appropriateness of all charges on sponsored projects. Determine if it is appropriate to request an F&A reduction and initiate the waiver request to The Research Office.

**Vice President for Research or Designee**: Evaluate F&A waivers and approve or deny the request; communicate that decision to the Office of Sponsored Programs.

**Sponsored Programs**: Support Principal Investigators in determining the appropriateness of charges on sponsored projects; assist in the interpretation of federal regulations, such as Uniform Guidance; develop and maintain policies and procedures in accordance with regulations; document approved waivers as part of the Cayuse grant record.

Review History

4/11/2024 - Reviewed and modest changes made