Facilities and Administrative (F&A) Costs

Sponsored programs activity incurs two types of costs. **Direct costs** are costs that can be specifically attributed to and readily identified with a particular project or activity: salaries and associated fringe benefits for project personnel, equipment, supplies, and travel expenses for the project. **Facilities and Administrative Costs**, also known as “indirect costs” or “overhead,” are costs that are not readily identified with or directly assignable to a project or activity with a high degree of accuracy: library use, student services, building operations and maintenance, building and equipment depreciation, departmental secretarial assistance, general office supplies, and administration.\(^1\) “Administration” includes work associated with processing orders and payments for equipment, supplies, and travel; hiring, appointing, and paying employees; processing proposals, administering award funds, billing and collecting from sponsors; monitoring compliance and auditing.

Since it is cumbersome to allocate F&A costs to individual projects, these costs are pooled and charged to projects on a percent basis. Click here for UNH’s current rates.

Projects are considered on- or off-site depending on where the majority of the activity (and its associated expense) occurs. Off-site projects do not incur utilities, maintenance, or library costs, and thus necessitate lower F&A rates.

As an example, if a research team relocates to an ocean vessel for 7 months of a 12 month project, the majority of the project expenses are off-site and the research off-site rate applies. If the only activities of a project are collecting and analyzing water treatment data in a rented facility not owned by UNH, and the analysis results will be used only for sponsor purposes, the “other” off-site rate is appropriate.

A formal process developed by the Federal government is used to determine F&A rates for universities. The U.S. Department of Health and Human Services, UNH’s cognizant federal agency, audits, negotiates, and approves the federally-negotiated rates. For each federal rate type, actual F&A costs incurred by UNH during a year for all projects associated with that rate type are arithmetically divided by the actual modified total direct costs (MTDC) of those projects, yielding a percent rate.

Since negotiated rates are based on costs UNH incurred in the past -- often 2 or more years before the rate approval and use -- F&A costs included on awards are **reimbursements** for actual costs for previous sponsored projects. If current costs are higher, they will be reflected in a future negotiated rate, and the costs recovered on future grants and contracts. Decreased costs result in future rate decreases.

\(^1\) Facilities and Administrative costs are defined by the federal government in OMB Circular A-21 (the guiding principles for universities) as “costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project.”
F&A cost revenues are deposited directly into UNH’s general fund along with revenue from tuition, fees, and the state appropriations, and are used to help cover UNH’s expenses. Under UNH’s decentralized budgeting system (RCM), the F&A revenue is distributed in the fiscal year in which it is received, as follows: 66% to the project director’s Responsibility Center unit; 24% to support central administration; and 10% to the project director to further his/her program objectives. (See section 3.1 of the RCM Manual https://www.unh.edu/vpfa/pdf/fy12manual-updated.pdf for more information.)

F&A rates are ordinarily applied against a base referred to as “modified total direct costs” (MTDC), consisting of salaries and wages, fringe benefits, materials, supplies, services, travel, and the first $25,000 of each subaward. Excluded from MTDC are equipment, capital expenditures, tuition, off-site facilities rental, fellowships, scholarships, and the excess of each subaward over $25,000.

Most sponsors expect to pay F&A costs and are accustomed to seeing the charges as part of sponsored programs proposal budgets. By law, federal agencies must reimburse UNH at the pertinent federally negotiated rate unless there are statutory limits on the reimbursement of such costs. For example, many U.S. Department of Agriculture grants and cooperative agreements limit F&A reimbursement to 23.456% of total project costs; and the U.S. Department of Education limits training grants to 8% of MTDC.

Many private foundations limit F&A reimbursement and some preclude F&A completely. UNH must decide in individual cases whether it can accept funding from these sponsors.

If a project director wishes to submit a proposal with an F&A rate less than the applicable negotiated rate where there is no sponsor-imposed limitation by policy or regulation, s/he must submit a waiver request and justification to their dean or RC unit head and the Senior Vice Provost for Research for timely consideration before the proposal deadline. Because F&A costs are real costs incurred by UNH, such waivers are rarely granted. (See policy in section 7 of USNH OLPM - UNH IV.B - Sponsored Program Administration.)

When F&A costs are not recovered by UNH, all programs are affected. Lower recovery means fewer dollars are available to fund ongoing UNH expenses. This puts more pressure on UNH to find alternative sources of funding. It is the responsibility of all project directors to help UNH recover as much of the costs of sponsored projects as possible.

Office of the Senior Vice Provost for Research
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