

Indirect Costs, Definitions and Application

This document outlines the process by which indirect costs (IDC) are determined and how indirect costs rates will be applied to sponsored projects.

What are Indirect Costs?

The total costs associated with organized research can be categorized as either direct costs or indirect costs (also referred to as facilities & administrative (F&A) costs).

Direct Costs: Direct costs are those which can be identified specifically with a particular sponsored project or that can be directly assigned to such activities with a high degree of accuracy. The portion of salary and fringe benefits of a faculty member performing an experiment or specialized laboratory commodities necessary for performing an experiment are examples of direct costs.

Indirect Costs: Indirect costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project. They are real costs incurred by the department and the University in support of sponsored activities but cannot be directly identified with any specific grant or contract. The costs of shared services such as libraries, physical plant operation and maintenance, utilities, departmental support costs (e.g., salaries, postage and related administrative costs), and depreciation for buildings and equipment are examples of indirect costs.

The IDC recovery on sponsored grants and contracts (i.e., the amount of indirect costs recovered from the funding agency by the University) allows SIU Carbondale to build, maintain and operate its research facilities. Indirect cost dollars received by the University are not extra dollars, a tax, a fee, or profit. The funding derived from IDC provides critical dollars necessary to support the operating expenses related to the space in which the research is conducted, as well as the various services provided to the Principal Investigator and the college and department for administering the grant (e.g., accounting, purchasing, human resources).

Additionally, the IDC recovery supports the research enterprise by funding major research initiatives, and supporting research and shared facilities. Part of the IDC recovery is returned to the colleges.

The IDC rate (and fringe benefit rates) are periodically reviewed and negotiated with our cognizant Federal audit agency, the Department of Health & Human Services, in accordance with applicable federal government cost principles set forth in the Office of Management and Budget (OMB) Circular A-21 Cost Principles for Educational Institutions (2 CFR, Part 220). Indirect cost rates are applied in accordance with federal

cost principles as set forth in OMB Circulars A-21 and A-110 (2 CFR, Part 215). These negotiated federal rates are used as the basis for the IDC rate charged to all funding agencies. The negotiated IDC rate is applied to Modified Total Direct Costs (MTDC). MTDC consist of all salaries and wages, fringe benefits, materials, supplies, services, travel and subcontracts up to the first \$25,000 of each subcontract (regardless of the period covered by the subcontract). MTDC exclude the cost of equipment, capital expenditures, charges for patient care, student tuition remission, rental costs of off-site facilities, scholarships and fellowships and the portion of each subcontract in excess of \$25,000. Principal Investigators are encouraged to work closely with OSPA staff when developing their budgets to assure that IDC is correctly calculated.

Application of Indirect Cost Rates

It is the University's policy to request the appropriate federally negotiated indirect cost rate in the proposal budget for *all* sponsored projects, regardless of funding source, unless a funding agency's *written, universal policy* will not permit full recovery of indirect costs. A "written and universal" policy means the funding agency has, as a matter of organizational policy or procedure, a single IDC rate that applies at all times for all similar awards, situations, or conditions.

The University applies the negotiated rates for indirect costs in effect at the time of the proposal submission or initial award, throughout the life of the sponsored agreement. "Life" means each competitive segment of a project. A competitive segment is a period of years approved by the funding agency at the time of the award. If the University's negotiated rate agreement does not extend through the life of the sponsored agreement at the time of the initial award, then the negotiated rate for the last year of the sponsored agreement will be extended through the end of the life of the sponsored agreement.

Indirect Cost Waiver/Reduction

Requests to consider applying an indirect cost rate of less than the University's full rate may be considered. These should be made as a written request for an Indirect Cost Waiver/Reduction on this [OSPA form](#).

An indirect cost waiver/reduction is an institutional agreement that the University will charge indirect costs at a rate lower than its federally negotiated rate agreement stipulates. Waivers may be requested in writing by the Principal Investigator during the proposal development process. Requests for waivers must be accompanied by a copy of the funding agency's written indirect cost policy and must be made at least a week in advance of proposal submission.

On a case-by-case basis, the final review and approval/disapproval of the waiver request will be made by the Office of Sponsored Projects Administration before the proposal is submitted. Two types of waivers/reductions will be considered. A standard waiver request form is used for either request.

1. Funding Agency Will Not Allow the Negotiated Rate

In some situations, the funding agency will specify a rate that is lower than the full negotiated federal rate of the University. Only published policies or copies of the agency's bylaws or applicable legislation which document the agency's established rate are permitted. In these cases, the University will generally approve a waiver if it is supported by a copy of the funding agency's written indirect cost policy and if the request is made before the proposal is submitted. Letters from the funding agency that specify the rates are unacceptable, unless signed by the agency's authorized representative, not by the program officer. As stated above, the waiver must be in writing and must be approved by the appropriate Dean/Director's Office and the Vice Chancellor of Research (VCR).

2. Strategic IDC Reduction

Principal Investigators may make a request for an IDC rate reduction for strategic purposes (e.g., to foster a stronger relationship with a funding agency, for very small grants where the inclusion of indirect costs would be detrimental to the project, where the project is being transferred to the University from another institution which had a lower rate, in cases where the department is willing to fund the shortfall in IDC). Each request is subject to department/college, VCR and OSPA approval. This approval is not guaranteed and depends on the unique circumstances of the request.

Principal Investigators may not offer or promise a reduced rate to a sponsor in advance of receipt of an approved waiver. The University will not alter its review procedures or approval criteria because of such promises. Principal Investigators are responsible for requesting waivers in a timely manner. The following information must be included in the waiver request, which must be made in writing to OSPA, with indicated concurrence of the appropriate Dean/Director and the VCR. The request must be received at least a week in advance of the due date for the proposal and should include:

1. The reason for the request and the dollar amount/value of the waiver request.
2. The significance of the proposed research and support to the investigator and the department.

3. Any consequences of accepting or denying the waiver.

Indirect rate reductions do not carry over to requests for competing continuations/supplements/renewals. A new request must be submitted each time and there are no guarantees of continuing approval.

Unacceptable Reasons for an IDC Waiver/Reduction

Granting of IDC waivers has broad implications for the University, college, department and principal investigator. Reductions in recovered indirect affect the distribution of indirect cost recovery, and can adversely affect future IDC rates. An inability to collect the full, negotiated IDC results in less funding for general support of research at all levels of the University.

Although OSPA will make every attempt to work with the principal investigator and department to approve reasonable requests for IDC waivers or reductions, IDC waivers/reductions will not be granted in the following circumstances:

1. The Principal Investigator failed to submit the proposal via approved institutional channels (e.g., through OSPA) prior to submission to the funding agency. In these cases, the funding agency will be expected to pay the full applicable IDC rate or the department or PI may be responsible for cost-sharing that portion of the IDC the funding agency refuses to pay.
2. To increase (or perceive to increase) the competitiveness of a proposal.
3. When a funding agency does not have established policies that determine the allowable rate and when it must be applied to a grant proposal.

On-campus and Off-campus IDC Rates

Grants or contracts will not be subject to more than one IDC rate. If more than 50% of the work performed by University personnel on a project is conducted off-campus, the off-campus rate will apply to the entire project.

On-campus is a sponsored project designation indicating the general location(s) of the sponsored project activity. On-campus locations include space in buildings owned by the University and, in some instances, space in buildings leased by some entity of the University. The on-campus designation indicates that any reimbursement of facilities-related costs will occur indirectly, through the application of the indirect rate that includes those costs, rather than through a direct space charge. For most federal sponsors, the "on-campus" negotiated indirect rate applies to projects designated as on-campus. Certain types of awards and/or sponsors stipulate specific indirect rates, typically lower

than the otherwise applicable on-campus rate. In these cases, the on-campus designation is still appropriate.

Off-campus is a sponsored project designation indicating the general location(s) of the sponsored project activity. Off-campus locations include space that the University does not own or when no University entity bears a lease cost for occupying the space. 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 an indirect rate that includes those costs. For most federal sponsors, the "off-campus" negotiated indirect rate applies to projects designated as off-campus. Certain types of awards and/or sponsors stipulate specific indirect rates. In these cases, the off-campus designation is still appropriate. For all activities performed in facilities not owned by the institution and to which rent is directly allocated to the projects the off-campus rate will apply.

The "off-campus" designation DOES NOT refer to fieldwork, which is conducted intermittently at remote locations as part of a larger on-campus-based research project. To be considered off-campus, at least 50% of the work has to occur at an off-campus location.

Indirect Cost Rates to be Charged:

1. Federal Sponsors: Refer to the current negotiated rates, available on the OSPA website. The full indirect cost rate will always be charged when permitted by the government. Any of the negotiated rates described below are considered "full" indirect for that particular activity. Exceptions to the full rate will require a waiver as discussed above.

a. **Organized Research Rate:** Sponsored research means all research and development activities that are sponsored by Federal and non-Federal agencies and organizations. This term includes activities involving the training of individuals in research techniques (commonly called research training) where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Includes all research and development activities that are separately budgeted and accounted for and that are sponsored by federal and non-federal agencies and organizations. Note that the full negotiated rates are charged on Modified Total Direct Costs (MTDC).

b. **Training/Instruction Rate:** Sponsored instruction and training means specific instructional or training activity established by grant, contract, or cooperative agreement. Except for research training [see above], this term includes all teaching and training activities, whether they are offered for credits toward a degree or

certificate or on a non-credit basis, and whether they are offered through regular academic departments or separate divisions, such as a summer school division or an extension division. Except for sponsored training, which is defined below, includes all teaching and training activities, whether they are credit or noncredit courses, for academic, vocational and technical instruction, for remedial and tutorial instruction, and for regular, special, and extension sessions.

c. **Other Sponsored Activities Rate:** Includes programs and projects financed by federal and non-federal agencies and organizations that involve the performance of work other than instruction and organized research. Examples of such programs and projects are health service projects, community service programs and studies, technical assistance and service programs, extension services, and agricultural experiment stations. Other sponsored activities mean programs and projects financed by Federal and non-Federal agencies and organizations that involve the performance of work other than instruction and organized research. NOTE: Some federal agencies, notably HRSA, may specify in their program notices that some activities should be at the Other Sponsored Activities rate rather than the Organized Research rate. The activities under these programs are clearly neither research, nor instruction.

2. Nonprofit Sponsors: The University accepts lower indirect cost rates from non-profit sponsors as long as the lower rates are included in an explicitly published policy and the policy is applied consistently to all university grant recipients. If a non-profit sponsor establishes the indirect cost rate as "negotiable," then the faculty member should discuss the rate with his/her Dean's/Director's Office and OSPA, prior to submitting the grant application. In these cases, the PI and the University will work together to negotiate a mutually agreeable indirect cost rate.

3. Corporate foundations: For corporate foundations that do not have a true arms-length relationship with their for-profit (Parent) or where the non-profit corporation is a management/fiscal pass-through for clinical trials oversight on behalf of a Federal Agency, the University generally expects that the full federal indirect cost rate will be charged. Exceptions to the full rate will require a waiver.

4. State and Local Governments: The University treats these programs in the same manner as Federal grant programs. The full indirect cost rate will be expected unless the agency's published rate is less. Exceptions to the full rate will require a waiver.

5. Industry: Industry is expected to pay the full federally negotiated indirect cost rate on all sponsored research excluding clinical trials. Exceptions to the full rate will require a waiver.

Project Administrative Costs

In the absence of a stated indirect cost policy for industry, state and local governments, corporate foundations and nonprofit organizations, the PI should add to the proposed budget (in the Other category) a line item of project administrative costs (or overhead costs) equivalent to 6% of total direct costs with the following explanation noted within the budget narrative:

“In the absence of written policies regarding administrative costs and in accordance with Southern Illinois University policy, project administrative costs equivalent to 6% of total direct costs have been included. If the {foundation/association/organization} has a stated policy regarding charging of administrative costs, we request that notification of that policy be made a part of the award notice.”

NOTE: Project administrative costs are not appropriate for federally funded projects, including those funded with federal pass-through monies.

Centers or other units cannot impose a minimal overhead recovery rate other than as provided above. Including an “administrative” rate could be viewed as an indirect charge by the funding agency.

Limitations on the IDC That Can Be Charged:

In all cases where the sponsor caps the IDC rate, and it does not specify how the rate is to be applied, University policy is to charge the capped rate to Total Direct Costs (TDC), rather than modified total direct costs, or MTDC.

In some instances, when a funding agency limits the IDC to a rate lower than the negotiated rate, but allows the rate to be charged on Total Direct Costs, rather than MTDC, this can result in a larger amount of IDC recovery than using the negotiated rate. Note, however, that the total indirect costs being requested cannot exceed what would be allowable using the University's negotiated rates. Therefore, the indirect should be calculated using the sponsor's IDC rate and method, as well as the University's negotiated rate and method, to ensure that the University is not requesting excessive indirect costs. If the indirect costs are excessive, the percentage being applied to the TDC must be reduced until the requested indirect costs are equal to, but not more or less than, what would normally be requested using the negotiated rate and MTDC.

At the End of the Project:

For fixed-price awards or other awards where the University is allowed to retain the unexpended balance, all reductions are granted with an understanding that if there is a balance at the end of the project, the IDC rate reduction will be rescinded. The published rate will be charged to the entire project and the value of the reduction will be

subtracted from the remaining balance. For example, if a balance of \$5000 remains at project end and the principal investigator was granted a reduction valued at \$1500, \$3500 would be available for transfer to departmental account. However, if the balance was \$500, no funds would be available for transfer to the departmental account and the effective reduction would then be \$1000.

Waivers to Rebudget IDC

Occasionally, remaining funds at the end of a project are rebudgeted to cover costs incurred in other budget categories. When rebudgeted funds are used to purchase equipment, this affects the amount of allowable indirect costs.

The amount of IDC that can be rebudgeted due to the purchase of equipment that was not included in the original project budget is limited to \$1,000. Principal investigators can request a special exemption to purchase equipment that would exceed this limit, with appropriate justification.

Guidelines adapted from existing SIU Carbondale guidelines and policies and information from Drexel University, Stanford University, U. of Wisconsin, and U. of Chicago.