

## Facilities and Administrative Cost Allocation Policy

**Background on Facilities and Administrative (F&A) costs.** Previously known as indirect costs, F&A costs represent those costs that are shared by the general community where each user's share is indeterminate. These include general campus operating costs such as electricity, water, other utilities, maintenance of facilities, and administrative support provided by various campus offices, such as the Office of Sponsored Programs, Foundation Relations, Accounting, Human Resources, General Counsel, Information Technology Services, Risk Management, etc. All federal and many non-federal sponsors recognize the need to reimburse not only the direct costs of research and other externally funded programs (e.g., non-gift external funding such as grants, contracts, cooperative agreements, service agreements, and evaluations), but also the indirect costs associated with these projects. Including F&A requests in grant applications allows the University to recover some of its real costs associated with externally funded projects. These real costs are incurred every time a grant or contract dollar is spent on research, public service, or instructional projects. They are an integral part of every grant proposal and should not be thought of as "skimming off the top" of sponsored grant funding. If the University does not recover these funds, then these real costs are absorbed and added to the existing general budget of the University, exerting an adverse impact on the general availability and allocation of funding to individual units, departments, and programs. Funding agencies recognize that F&A is a necessary part of a budget and understand that discriminating against institutions that include F&A is neither ethical nor a sound business practice.

**Current F&A rates.** The University works with the federal government to determine the rate to be used for federally-funded projects (per Uniform Guidance, 2 CFR Part 200). This rate (39.0% of salaries and wages) is reviewed and approved every four years by the U.S. Department of Health and Human Services (DHHS). For projects funded by non-federal sponsors, the rate varies depending on the project; it is either allocated a percentage of salaries/wages (39.0%), or a percentage of total direct costs (20%). As a rule, all proposals for external funding should include F&A costs so that the University is able to recover a portion of the costs associated with managing the sponsored program.

Exceptions to paying full rates may occur with some types of funding sponsors. Private foundations, nonprofits, and many charitable organizations specify that they do not pay F&A costs or they limit F&A recovery in grant application invitations. Governmental agencies or programs at federal, state, and local levels (e.g., unified school districts) publish the F&A rates that are allowable for their grants and contracts. The University accepts published limited rates for these types of agencies and organizations. Contracts with private corporations should recover the full University's federally-negotiated F&A rate. In rare cases, the F&A costs may be negotiated at limited rates or waived for other grants and contracts. Any voluntary waiver of F&A costs must be approved by the Provost at least one week in advance of the due date of the grant proposal.

**Distribution of F&A Recovery.** In order to reimburse central administrative expenses, to stimulate further research and to reimburse the department that generated the F&A recovery, the University has elected to allocate the F&A recovery in the manner detailed in the table

below. The fiscal allocation will be made on an individual grant basis, depending on the actual amount recovered from the sponsor (see “distribution process” below for additional details).

Percentage	Area	Purpose
50%	General Fund	To reimburse central administrative expenses related to sponsored programs.
10%	Principal Investigator	For future costs related to externally funded initiatives. Funds could be used for non-salary research support for the PI as appropriate. If a program grant was submitted by the program director or other University administrators, the allocation will be credited to the related program for future developments.
10%	Department or Unit	To seed externally funded initiatives, support research travel and other activities, and/or to cover administrative costs. Funds will be used to cover any overdrafts on sponsored programs.
10%	Deans	To assist with cost sharing. F&A costs must be designated for research or project-based initiatives, and not for instruction. Funds could also be used as described above for Departments.
20%	Research Fund (administered by Provost)	To support and advance externally funded initiatives, such as research, across campus.

**Distribution Process.** For proper internal control and budgeting, the F&A recovery will be allocated in accordance to the following procedures:

Burden of F&A Cost	The Accounting Office will burden each sponsored project with the appropriate F&A cost based on negotiated rates or other predetermined rates on a monthly basis.
Timing of Allocation	The portion of F&A allocated to the General Fund and the Research Fund will be distributed monthly to their respective accounts. All other allocations will be distributed annually in late summer/early fall, based on the exact amount of F&A costs recovered during the preceding fiscal year. The amount will be treated as a budget appropriation, as additional funds available to the distribution areas in the subsequent fiscal year.
Availability	For each distribution area, the Accounting Office will create an account under the restricted fund (fund group 03), as a University-designated restricted account. Unspent funds will carry forward from fiscal year to fiscal year. For PI funds only, the account balance that may carry forward is subject to a \$10,000 maximum limitation. The maximum limitation is in place to encourage timely and proper usage of the funds, and can be increased by request on a case by case basis.
Recovery Shortage	In any fiscal year, if the University receives less F&A recovery than the budgeted amount (which is based on the grants already awarded), the allocation will be adjusted. The general fund will receive the budgeted amount in order to maintain a balanced budget. The shortage will be shared equally among the remaining areas: PI, Department/Unit, Deans, and Provost’s Research Fund.

**Specific Usage of Funds.** All funds must be expended for University-related purposes in accordance with existing University policies and procedures. These funds are intended to support existing externally funded initiatives or to promote research/programmatic endeavors that hold promise for new revenues. A detailed listing of related costs is provided in the next section. In addition, each area should adhere to the following guidelines:

- **PI's Allocation:** An Oracle task will be created under the budget to track the PI's expenditures, and to determine available residual funds at any time. The PI should obtain proper approval from the Project Manager (usually the department chair and/or Dean), when charging to their task. These funds should be used for externally funded initiative related costs (see itemized list that follows this section). They could also be used for summer research support, provided that the PI is not already receiving full calendar year funding from the University and/or sponsored programs. When requesting non-salary, summer research support, the PI should document the research project in which they are participating (or plan to participate). If the PI leaves the University, these allocated funds will be forfeited and returned to the University's General Fund.
- **Department's Allocation:** The department's allocation will be used at the discretion of the department head, to provide support for "seed projects" or for current externally funded initiatives. These funds could be used to seed externally funded projects, to support research travel and other activities, and/or to cover research related administrative costs such as general office supplies, phone, postage and other administrative needs. They will also be used to cover any overdrafts on sponsored programs.
- **Dean's Allocation:** The Dean's allocation will be used at the discretion of the Dean, provided that consideration is given to externally funded initiatives' related costs or for the purposes of seeding new project initiatives. These funds could be used to assist with cost sharing (also known as matching) required in order to complete a sponsored research project. When using these funds for cost sharing, Deans should follow existing procedures issued by the Accounting Office in order to ensure that the cost sharing expenditures are properly documented for reporting and future reference.
- **Research Fund:** The Research Fund will be managed by the Provost's Office and be used at the discretion of the Provost. The funds are established to support and advance externally funded initiatives across campus.

**Example of Externally Funded Initiatives' Related Costs.** Examples of appropriate uses of F&A allocations are described below:

- Bridge funding: Salaries and benefits for key personnel to retain them between grants, as well as supplies, travel, and clerical support to develop proposals for new funding.
- Sponsor-required cost sharing: Cost to meet sponsor-required percentages or dollar amounts for cost sharing as documented in proposals or grant agreements.
- Allowable project costs: Salaries for research assistants, chemical supplies, travel for grant purposes, or other types of support approved but not fully funded by the sponsor.
- Non-allowable but related project costs: Items such as participant food, promotional items, office equipment, boat rental fees, space rent, etc. that the sponsor does not allow

as a direct charge, but that are needed to conduct or enhance the project. Any items purchased with University funds will be retained by USD should the PI leave the institution.

- Project development costs: Pilot projects, proposal writing, proposal editing, travel to conferences and/or to meet with sponsors, expenses to host sponsors, prospective partners, or influential project supporters, specialized equipment, and workshops leading to proposal submissions are all allowable costs. Any items purchased with University funds will be retained by USD should the PI leave the institution.
- Research faculty recruitment and initial support: Seed funding for new faculty or research faculty bringing grants with them; salaries for promising research associates or new faculty with the expectation they will write proposals and obtain future grants.
- Research center/institute support: Shared administrative/executive assistants, technicians, equipment purchases or maintenance, and other support for groups of principal investigators. Any items purchased with University funds will be retained by USD should the PI leave the institution.

**Please Note Over-expenditures or disallowed costs:** Although rare, if over-expenditures or disallowed costs occur on the main externally sponsored account, the costs will be deducted from the annual distribution through consultation with the Dean and the PI.