

Indirect Cost recovery

To understand indirect cost recovery holistically it is crucial to understand what an indirect cost is and how the indirect cost rate is calculated before understanding the projection and distribution of indirect cost recovery to units under ABB.

What are direct costs?

To understand indirect costs, it may be helpful to first understand direct costs attributed to grants and contracts. Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Examples of direct costs are salaries and wages, fringe benefits, service contracts, materials, supplies, travel, sub awards, equipment, tuition remission, rental costs, etc.

What are indirect costs?

Indirect costs, also known as Facilities & Administrative costs- F&A, are those costs incurred for common or joint objectives and cannot be identified readily and specifically with a particular sponsored project.

Indirect costs are grouped into two categories,

Facilities costs - Utilities, routine maintenance & repair, building & equipment depreciation, services of the library, etc.

Administrative costs – General administrative costs at both the central level and the department level such as proposal preparation & submission, grant administration, accounting, payroll, purchasing, student services, etc. that support research projects at the university, but are not readily or specifically attributable to a particular research project.

F&A costs are defined by the Federal Office of Management and Budget in the [Federal Uniform Guidance](#).

F&A rate and how is it calculated?

The F&A rate is the mechanism used to reimburse the University for the above Infrastructure and administrative support costs associated with sponsored research.

The University negotiates F&A rates with its cognizant agency – the Department of Health & Human Services (DHHS), Division of Cost Allocation (DCA). The UW Management and Accounting Office is the department charged with negotiating the rates with DHHS. Rates are developed and negotiated approximately every four to six years.

Basically, the rate is the F&A costs for a particular function (e.g. research conducted on campus) during the selected year divided by the *modified total direct costs (MTDC) incurred in support of that function during that year.

***Modified Total Direct Costs (MTDC)** – F&A is normally applied to modified total direct costs. All salaries and wages, fringe benefits, materials and supplies, services, travel, and sub awards up to the first \$25,000 of each sub award (regardless of the period covered by the sub award). Items excluded from MTDC include equipment, capital expenditures, charges for patient care, tuition remission, rental costs, scholarships, and fellowships as well as the portion of each sub award in excess of \$25,000 shall be excluded from modified total direct costs.

How are F&A rates determined for individual grants & contracts?

Although the university negotiates F&A rates, not all sponsors reimburse the University for F&A costs at the negotiated rates.

- The actual F&A rate for most federally-sponsored research is the standard rate referred to in the [University's overall F&A rate agreement](#).
- Statutory limitations prevent some Federal sponsors from reimbursing F&A costs at the Federally-negotiated standard rates.
- In addition, many non-Federal sponsors reimburse the University at rates less than the Federally-negotiated standard rates.

F&A costs are charged to individual awards as direct costs are paid. The university does not recover F&A costs from sponsors until direct costs of the awards are incurred. F&A is normally applied to modified total direct costs (MTDC) of awards.

Indirect cost recovery process

Sources of indirect cost recovery funds (excluding American Recovery & Reinvestment Act- ARRA funds).

The UW office of Research publishes an Annual Research Report which highlights research proposals, awards and expenditures for each fiscal year. Schedule 6 in the FY2014 report shows the direct expenditures from sponsored projects, by type of program and source of funds. The Office of Research also publishes a Monthly Research Award Summary. Both reports are available on the Research Office website.

Campus allocation process

ICR is a component of activity based budgeting and is taxed at a 65 % rate. Colleges and departments that generate ICR retain 35% to support their administrative costs. The other 65% is used by the Provost to fund campus facilities costs, research administration costs and to allocate to units based on initiatives and other criteria.

In preparing the budget to present to the Board of Regents, OPB downloads data from FAS of the indirect costs paid by each grant/contract budget (account code 25xx) at the university for the most recent 12-month ABB period, which is defined as April 1 to March 31 each year. For example, the FY2016 allocation is based on ICR paid by each grant/contract budget for the period of April 1, 2014 to March 31, 2015. The data is sorted by college/school/VP organization code and the indirect costs are summed for each unit for the ABB year. The sum of ICR is multiplied by 35% and this is the amount of ICR the unit should have in their base budget. ICR is only one component of DOF and it isn't possible to track ICR specifically on budgets, a baseline ICR amount was calculated for each unit in FY2012. Each unit has permanent ICR funding in their budget, and the incremental change from one year to the next is the allocation they receive in the unit's annual allocation letter.