Do we recover all of our F&A costs?

Although the actual cost of F&A that support sponsored research activities is 58.69%, the University's average recovery is closer to 30%. There are multiple reasons:

• Within the pool of federally sponsored projects there are exceptions to the negotiated rates for specific program or agency restrictions; and
• Research sponsored by foundations, nonprofit agencies, or state and local governments is accepted at lower rates.

Because of the mix of sponsors in our portfolio, the monies recovered for indirect costs will remain less than our actual costs.

What happens to the money the University collects?

Under the University’s Earned Income/Full Cost Model, 100% of indirect cost recovery (ICR) is returned to the college, or colleges, that generated it. The subsequent distribution to departments or retention for shared collegiate purposes is determined by the collegiate leadership. Similarly, all related F&A costs are returned to the colleges via the new cost allocation model. It is important for everyone involved to understand that when a reduced F&A rate is applied to a sponsored project, it will result in a reduced F&A revenue stream to the college even though that college will still be responsible for covering its full share of related F&A costs.

Understanding F&A Costs

What Faculty and Staff Need to Know

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What are direct costs?
Direct costs are defined in OMB Circular A-21 as "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." The portion of salary and fringe benefits of a faculty member performing an experiment or preparing a survey instrument are examples of direct costs to a sponsored project.

What are F&A (indirect) costs?
OMB Circular A-21 defines F&A costs as "those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, instructional activity, or any other institutional activity." Examples of facilities costs include utilities and library acquisitions. Examples of administrative costs include compensation and fringe benefits of administrative staff, office supplies, and postage.

Understanding Facilities and Administrative (Indirect) Costs
The primary focus of this brochure is to promote an understanding of F&A costs and rates. The costs associated with organized research at the University can be categorized as either direct costs or indirect costs. Indirect costs are also referred to as Facilities and Administrative (F&A) costs by the federal government (OMB Circular A-21). Funding derived from F&A cost reimbursements provided by external sponsors is critical to the University of Minnesota’s operations.

What You Need to Know
The University operates in a competitive environment, and monitors F&A rates of its peer institutions. Our federally negotiated rates are average among the Committee on Institutional Cooperation schools (the Big Ten plus the University of Chicago). Likewise, our actual rates for business and industry are comparable to University of Michigan and Northwestern University.

How are F&A rates calculated?
Because the University of Minnesota is a major recipient of federal funding, we follow a cost accounting process, consistent with principles and guidelines presented in OMB Circular A-21.

Research F&A costs are the sum of all indirect costs incurred in support of research activities within a fiscal year and assigned to one of several cost pools within the facilities or administrative categories. These cost pools are shown in the chart.

Modified total direct costs are the sum of all direct costs attributable to organized research (total direct costs) minus certain direct costs.*

Is the University’s actual F&A rate the one that is used?
The federal F&A rate is determined through a negotiation process with the U.S. Department of Health and Human Services (DHHS). The data the University collects to calculate its actual F&A rate is the starting point. Our actual costs in 2003, and the rate negotiated with DHHS, are compared in the Actual vs. Negotiated F&A Costs chart.

The federally negotiated rate is not the only F&A rate that the University applies to externally sponsored projects. The University is sensitive to the needs of the sponsors and competitive context of funding, and has set a number of institutional F&A rates. These rates are available at http://process.umn.edu/groups/pdp/documents/rates/f_and_a_rates.cfm.

How do our F&A rates compare to those of other institutions?
The University operates in a competitive environment, and monitors F&A rates of its peer institutions. Our federally negotiated rates are average among the Committee on Institutional Cooperation schools (the Big Ten plus the University of Chicago). Likewise, our actual rates for business and industry are comparable to University of Michigan and Northwestern University.

*The A-21 lists “Equipment, capital expenditures, charges for patient care and tuition remission, rental costs of off-site facilities, scholarships, and fellowships as well as the portion of each subgrant and subcontract in excess of $25,000.”