INDIRECT (F&A) COSTS AND RATES

FREQUENTLY ASKED QUESTIONS

What are indirect costs?

Indirect costs are the expenses incurred by the University of Hawaii (UH) to develop and maintain the facilities and administrative infrastructure necessary to support extramurally funded research and non-research activities. Indirect costs are now referred to as “Facilities and Administrative” or F&A costs. They include, but are not limited to, the costs of providing:

- Centralized and departmental contracts and grants administration;
- Research compliance functions (e.g., protection of human and animal subjects, environmental health and safety, etc.);
- Use of offices, labs, classrooms, conference rooms, and other facilities on the ten UH campuses;
- Related building and grounds maintenance and utilities; and
- Use of campus and departmental libraries.

What are direct costs?

Direct costs are those that the PI and sponsor have determined to be necessary to perform a project. Direct costs must be specifically identifiable with a particular project or activity and verifiable by source documents, such as payroll or accounts payable records. Direct costs are used by the Principal Investigator (PI) to pay for such project costs as:

- Salaries and fringe benefits for investigators and technical staff;
- Equipment, materials, supplies, and contractual services;
- Travel to project-related meetings; and
- Computer services and communication charges.

The sum of direct costs and F&A costs for an extramurally funded project is referred to as “total costs.” Direct and F&A costs must be kept separate for budgeting, accounting and reporting purposes.

Should the costs of providing administrative support for my project be budgeted as direct or F&A costs?

Generally, administrative and clerical costs are considered to be F&A costs and should not be budgeted or charged as a direct cost of the project.
There are exceptions. Some large projects and major activities require an extensive amount of administrative support beyond the level that departmental administrative staff typically provide. When individuals can be specifically identified with particular project or activity, it may be appropriate to include the expenses associated with their salaries and benefits in the direct cost section of the proposal budget. This must be well justified in the budget narrative.

Please be aware that, even if an award is made based on the budget as submitted, there is a risk that these costs could later be deemed unallowable and therefore denied. (Exhibit C of OMB Circular A-21 provides examples of situations in which the federal government acknowledges that direct charging of such costs may be allowable.)

**What is an F&A rate?**

The F&A rate is the method used by the federal government to reimburse UH and other research institutions for use of their facilities and administrative services to support federally funded projects and activities. The actual rates are calculated in accordance with federal regulations and guidelines.

The F&A rate is expressed as a ratio of F&A costs to “modified total direct costs” (MTDC). MTDC is calculated by subtracting certain allowable exemptions from total direct costs. For example, if the MTDC were $1,000,000 and F&A costs were $100,000, the F&A rate would be 10%.

**Who determines the F&A rate for UH?**

ORS has a special section (Cost Studies and Rate Analysis) that compiles and analyzes data on actual UH operating costs and develops reports for UH leadership and the federal government. Based on its analyses, ORS proposes and negotiates F&A rates with the federal government through its “cognizant agency.” The federal cognizant agency for UH is the San Francisco-based Division of Cost Allocation (DCA), an office of the U.S. Department of Health & Human Services.

In some cases, a special rate, called an “off campus rate,” is calculated for work that will occur in facilities provided by the sponsor or a third party. It also includes projects that will occur predominantly in the field and not at a UH campus or UH operated facility.

When the rates are approved, DCA sends signed rate agreements to ORS, and ORS communicates these rates to the UH community through its Website. These federally approved rates must be used in proposal budgets on all federally funded projects.
**Do F&A rates apply to non-federal awards?**

Yes. However, it is up to UH to determine whether and how the federal rates apply to non-federal awards or if other rates apply. At UH, the location of the project may determine which rate applies. Check the F&A rate table posted on the ORS Website for the rate applicable to your award.

**What if my award is projected to straddle two fiscal years, each with a different F&A rate?**

If you are confident of your award dates, apply the F&A rate applicable to each period. For example, if the F&A rate is scheduled to change for FY ’09 (beginning July 1, ’08), use the FY ’08 rate for costs to be incurred between July 1, 2007 and June 30, 2008; use the FY ’09 rate for costs to be incurred between July 1, 2008 and June 30, 2009.

**Part of my project will be conducted at the Kaka’ako campus, and part of it will be conducted at Manoa. What rate should I use?**

The Kaka'ako research rate can be used only for research projects that are conducted by UH personnel, including RCUH service ordered personnel, on the Kaka’ako campus. If the work straddles two campuses, use the Kaka'ako rate only when staff will work more than 50% of the time at Kaka'ako location.

Note that the regular training or other sponsored activity rate should be used for non-research projects conducted on the Kaka'ako campus.

**How are F&A cost recoveries used?**

F&A cost recoveries are booked to a central “Research and Training Revolving Fund” (RTRF) account. The fund was established by the Legislature so UH could use the recovered revenue to further its research and training mission. RTRF funds at UH are allocated according to a formula that has been approved by UH leadership.

About half of the RTRF funds are allocated to the college or department of the PI on the award, and these funds are typically used at the discretion of the dean or director to further the research and training mission of their respective units. Some RTRF funds are allocated to support central UH departments such as OTTED, RCUH, CHS, and ORS.
Can I use F&A costs charged to my award as the UH share of costs?

Amounts billed to the sponsor may not be used for cost sharing purposes. Unrecovered F&A costs can be used for cost sharing purposes provided that the sponsor does not prohibit it.

Will a high F&A rate undermine the competitiveness of my proposal?

It is uncommon for the F&A costs included in a proposal budget to be a consideration in the decision to fund a project. Also, the F&A rates at UH are significantly lower than equivalent rates at most universities.

If a sponsor won’t agree to the UH F&A rate, can I accept a lower rate for my project?

Some sponsors (private foundations, in particular) do place caps on the F&A rate they will pay. Some prohibit the application of any F&A rate to the study budget.

It is UH policy to recover full F&A costs unless the sponsor explicitly limits or prohibits recovery. However, there are individuals at UH who are authorized to approve reductions or waivers of established rates. Generally, this is the Chancellor of the campus; for Manoa, it is the Vice Chancellor for Research and Graduate Education. Discuss the situation with your Dean or Director before you request a reduction or waiver of an approved F&A Rate.

Provide written documentation of a sponsor’s rate restriction when you submit your proposal to ORS. Also, make sure you receive written documentation of any approved reductions or waivers from the appropriate UH official.

# # #