Do we recover all of our F&A costs?

Although the actual cost of F&A that support sponsored research activities is 62.89%, 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

The F&A cost component of a sponsored research project is intended to reimburse the University for costs incurred to support research. Unfortunately, as shown in the chart inside this brochure, even when the federally negotiated rate of 51% is applied to a project, approximately 12% of the actual F&A costs are not recovered. The University further subsidizes research when a reduced, non-standard F&A rate is applied to a project. While there are circumstances under which a reduced F&A rate is appropriate, it is important for everyone to understand the impact as a loss of revenue to the University.

The University of Minnesota is an equal opportunity educator and employer. This publication is available in alternative formats upon request. Direct requests to OVPR Communications, 450 McNamara Alumni Center, 200 Oak Street SE, Minneapolis, MN 55455; ovprcommo@umn.edu or 612-625-6993. The University’s mission, carried out on multiple campuses and throughout the state, is threefold: research and discovery, teaching and learning, and outreach and public service. ©2007 Regents of the University of Minnesota. All rights reserved.
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.

Questions and Answers about F&A Costs and Rates

What You Need to Know

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 are the University’s actual F&A costs?

The most recent official cost analysis using Fiscal Year 2006 data revealed that the University’s actual on-campus F&A rate is 62.89%. This means that for every dollar spent on direct costs (such as salaries and wages, fringe benefits, materials and supplies, services and travel) for organized research, the University spends an additional 63 cents to support this research.

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.

Actual vs. Negotiated F&A Costs at the University of Minnesota

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 2006, 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/ppd/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 those of 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.

*In 1991, administrative costs were capped by federal legislative action at 26% for all educational institutions. Although the University can document costs at a rate of 32.58% for administration, it is only allowed to charge 26% for these activities on most federally sponsored projects.

F&A rate = \[
\frac{\text{research F&A costs}}{\text{modified total direct}}
\]