OP 65.01: Facilities and Administrative Cost Recovery

DATE: August 6, 2014

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to set forth institutional policy for the recovery of facilities and administrative (F&A) costs on sponsored projects.

REVIEW: This OP will be reviewed in August of even-numbered years by the managing director of the Office of Research Accounting (ORA) with substantive revisions forwarded to the senior associate vice president for research, the vice president for research, and the vice president for administration and finance and chief financial officer.

POLICY/PROCEDURE

1. Policy Statement

   Facilities and administrative (F&A) rates are determined in accordance with cost principles promulgated by the federal government and as a result of audit and negotiations conducted by the university’s cognizant agency, the Department of Health and Human Services (DHHS).

   Additionally, the use of F&A recovery funds will comply with Texas Education Code §145.001. Specifically, funds must be separately accounted for and used to further encourage research at the institutional or department level.

   It is the policy of Texas Tech University to provide for the full recovery of F&A costs in all proposals submitted to prospective sponsors unless a waiver has been approved in accordance with the policy herein.

2. Definitions

   a. Facilities and administrative (F&A) costs--institutional costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.

   F&A costs include an allotted share of such items as operation and maintenance of the physical plant; department, college, and institutional administration; library operations; charges for use of equipment and facilities; and certain general expenses attributable to sponsored projects. (OMB Circular A-21 E.1, F.1)

   b. Modified total direct costs (MTDC)--the basis for distributing F&A costs to sponsored projects and consists of salaries and wages, fringe benefits, materials, supplies, services, travel, and subawards up to the first $25,000 of each subaward (herein referred to as the base).
Excluded from the base are capital equipment (equipment with an acquisition life of $5,000 or greater and a useful life of more than one year), tuition assistance, rental expenses charged directly to projects, scholarships, fellowships, and the portion of each subaward in excess of $25,000 (OMB Circular A-21 G.2), as well as any additional sponsor exclusions.

c. On campus--activities that are conducted in facilities owned by Texas Tech University and for which the facilities costs (operation and maintenance, depreciation, or lease of building equipment and improvements, etc.) is applicable.

d. Off campus--activities that are conducted in facilities not owned by Texas Tech University and to which rent is directly allocated to the project.

e. Predetermined rate--a negotiated F&A rate, usually for a two to four-year period, which is based on historical costs rather than actual F&A costs incurred during the period billed. Texas Tech University negotiates on a predetermined basis.

f. Provisional rate--an agreed-upon rate used for billing purposes until a negotiated, predetermined rate is approved. Provisional rates could result in under- or over-recoveries for the provisional year if the final rate is different from the provisional rate.

3. Current Rates

Texas Tech University has formally negotiated rates, both on and off campus, for organized research, sponsored instruction, and other sponsored activities. Below are the current rates to be applied to awards from both federal and non-federal sponsors.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Rate Type</th>
<th>Organized Research</th>
<th>Sponsored Instruction</th>
<th>Other Sponsored Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>On</td>
<td>Off</td>
<td>On</td>
</tr>
<tr>
<td>FY 14</td>
<td>Predetermined</td>
<td>47%</td>
<td>26%</td>
<td>47%</td>
</tr>
<tr>
<td>FY 15-FY18</td>
<td>Predetermined</td>
<td>49%</td>
<td>26%</td>
<td>49%</td>
</tr>
<tr>
<td>FY 19-FY20</td>
<td>Provisional</td>
<td>49%</td>
<td>26%</td>
<td>49%</td>
</tr>
</tbody>
</table>

The rate in effect at the time of the initial proposal and award shall be used throughout the life of the sponsored project unless a new budget is negotiated or a new increment in funding allows an increase in the rate. For awards made in a provisional year, the provisional rate should be adjusted once a predetermined or final rate is negotiated and approved by DHHS (OMB Circular A-21, G.7).

4. Facilities and Administrative (F&A) Waivers

All proposals must include budget requests for F&A costs using the university’s full negotiated rate unless: (a) such costs are limited by the sponsor/award, or (b) a reduced rate is approved in advance by the vice president for research (VPR).

a. Sponsor Limitations

The sponsor may preclude or limit F&A costs as a condition of the award. For non-profit foundations, there should be an official, written, and publicly disclosed policy in this regard that is applied on a consistent basis, or a public solicitation for proposals defining the limit on F&A recovery as a condition of the program, before the university will accept the lower rate.
b. Institutional (i.e., Voluntary) Waivers

After careful consideration of the institutional costs and benefits, the vice president for research (VPR) may approve reduced F&A rates in limited circumstances. F&A waivers to for-profit companies will be granted rarely, if at all.

Any requests to the VPR for this purpose should be in the form of a memo, should describe the circumstances that justify a lower rate, and should be signed by the principal investigator, the department chair of center/institute director, and the dean or associate dean of the college. If the request is approved, the VPR will forward his/her approval to the Office of Research Services (ORS).

5. Procedures

a. Proposal Budgets

At the time the proposal is submitted, ORS will determine the appropriate F&A rate for the project. The determination will be based on a review of the program announcement or guidelines, information on the Internal Routing Sheet for Proposals, and discussion with the principal investigator.

b. Budgeting and Charging F&A Costs

ORA establishes the sponsored project budget based on the approved F&A cost rate and base. As funds are re-budgeted, ORA recalculates and adjusts the F&A budget as needed. Each month, ORA charges F&A costs to sponsored projects and credits the F&A designated recovery fund (18B000). To minimize the risk of overspent projects, the full F&A budget is encumbered at the time of account setup.

c. Allocation of F&A Recovery

The vice president for research is responsible for the annual allocation plan for F&A cost recovery revenue. Revenue may be allocated to seed new faculty projects, fund cost sharing commitments, or build the university’s sponsored research, instruction, and public service programs. It is also recognized that a portion of the F&A recovery must be committed to support the administration of sponsored projects through allocations to specific administrative support functions, colleges, and departments.

d. Use of F&A Recovery

Separate F&A FOPs (within funds 18B001 and 18B002) are established within each college/department to ensure accountability. The VPR office requires that all distributed funds are expended in compliance with state and institutional guidelines and in support of activities that increase the research capacity of the institution. ORA provides additional oversight for the funds.
6. **Roles and Responsibilities**

   a. **Principal Investigator**

       • Ensure full F&A is included in proposal budgets unless limited by the sponsor/award or formally waived in advance by the VPR

   b. **Office of Research Services**

       • Advise principal investigators on F&A cost rates and policies
       • Review and approve proposals and awards to ensure inclusion of approved F&A rates
       • Ensure institutional waivers have been approved by the VPR when proposals are submitted with less than the full negotiated rate
       • Review sponsored projects awards in conjunction with rate changes to determine if the awards and/or budgets should be amended

   c. **Vice President for Research**

       • Approve waivers to federally-approved F&A rates in accordance with this policy
       • Determine the allocation of F&A recovery funds
       • Provide fund oversight and guidance on spending parameters relative to Texas Education Code §145.001 (i.e., funds used to advance research)

   d. **Office of Research Accounting**

       • Prepare/submit the F&A rate proposal in accordance with the applicable provisions of OMB Circular A-21
       • Negotiate rates with DHHS
       • Distribute the approved rate agreement to campus
       • Recalculate F&A when processing re-budgeting requests
       • Calculate, record, and bill F&A costs at the approved rate
       • Provide monitoring of expenditures and serve as additional fund oversight (i.e., funds used to advance research)