Overhead/Indirect Cost Recovery Overview

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Indirect Cost Rate Types and Preparation

RATES – LIFE CYCLE

> **Fixed Rates**
  > Negotiated with Federal government (based on CMU projections)
  > Charged to Sponsored awards = F&A recovery
  > Provisional Rates – temporary rates superseded by Fixed Rates

> **Actual Rates**
  > Rates calculated with actual expenses based on fiscal year activities
  > Compared to Fixed Rates to get annual variance/carryforward

> **Carryforward**
  > Variance between the fixed (the charged rate) and the actual rate
  > Audited CFW amount is applied to a subsequent rate negotiation

RATE PREPARATION

> Carnegie Mellon uses MAXIMUS CRIS.net, a software tool to prepare F&A rate proposals. This software incorporates all the reporting requirements of 2CFR Part 200-Uniform Administrative Requirement, Cost Principles and Audit Requirements for Federal Awards.
Indirect Costs Federal Oversight and Auditing

- **Department of Defense (DoD)**
  - CMU assigned to the DoD for rate cognizance.
    - 45 Institutions of Higher Education (IHE) assigned to the DoD
    - most IHE are Dept of Health and Human Services cognizant

- **Office of Naval Research (ONR)**
  - ONR Indirect Cost Branch is responsible for administering (negotiation and approval) of indirect cost rates for the university.

- **Defense Contract Audit Agency (DCAA)**
  - provides audit services to DoD and other federal sponsors
  - operates under the authority of the Under Secretary of Defense (Comptroller)/Chief Financial Officer
  - DCAA maintains an office at CMU
    - auditing year-round
    - 2 full-time and 1-3 part-time auditors on site
Facilities & Administration Definitions

- **F&A**
  Recovery of university overhead or indirect costs from sponsored research activities.
  Overhead = Real Costs

  \[
  \text{F&A rate} = \frac{\text{Facility Overhead} + \text{Administrative Overhead}}{\text{Modified Total Direct Costs (MTDC) for Research}} = \%
  \]

- **Facility:**
  Cost of the physical infrastructure of university identified as benefitting research through review of space utilization (exception Library)

- **Admin:**
  Administrative costs of both central and department administration offices benefitting research

- **MTDC:**
  Total direct cost less equipment expense, subcontracts > $25k, graduate tuition
Facility components

**Building**
- Depreciation expense for new bldgs./renovations >$100k
- Renovations <$100k

**Interest**
- Interest expense for bond financed research buildings

**Equipment depr**
- Depreciation expense for non-sponsored equipment

**Operation & Maintenance**
- General maintenance/utilities; protection/preservation of physical plant
- Central: FMCS, CDFD, EH&S, Campus Police, Insurance
- Department funded FMCS activities (e.g. dept moves, kitchen cleaning, day porters)

**Library**
- Operating costs of university libraries
**Administrative components**

**General Admin**
- President’s office, accounting, payroll, general counsel, institutional research, human resources, internal audit, budget office, computing services (does NOT include advancement/fundraising)

**Sponsored Projects Admin**
- VP Research, OSP, SPA, Cost Analysis

**Student Services Admin**
- University Health Services, Counseling and Psychological Services

**Department Admin**
- Deans/department heads offices, academic business offices (personnel and pro rata share of non-sponsored operating expenses)
- federal “allowance” for faculty administrative efforts (3.6%)
- Provost administrative office
F&A allocation methodology

F&A COSTS

Allocated by:

Facilities:
- Building Depr
- Interest O&M
- Equip Depr
- Library

Admin:
- General Department Spons Proj
- Student Svcs

F&A COSTS ALLOCATED TO:

- Research
- SEI Research
- Instruction
- Other Sponsored
- Other: Unallow, Auxiliary, Advancement

ALLOCATION BASE

- Research MTDC
- SEI Research MTDC
- Instruction MTDC
- Other Sponsored MTDC
- Other: MTDC

= %
Administrative Cost Allocations – FY19 rate

Administrative Rate = 31.1%
Facility Cost Allocations – FY19 rate

FACILITIES COMPONENT = 29.4%

- **Building**: 7.5%
  - Instruction: 44%
  - Research: 27%
  - Other Inst Activity: 3%
  - Other Spons Activity: 1%
  - SEI Research: 25%
- **Interest**: 4.2%
  - Instruction: 50%
  - Research: 38%
  - Other Inst Activity: 9%
  - Other Spons Activity: 1%
  - SEI Research: 2%
- **Equipment**: 2.9%
  - Instruction: 47%
  - Research: 13%
  - Other Inst Activity: 1%
  - Other Spons Activity: 1%
  - SEI Research: 39%
- **O&M**: 11.0%
  - Instruction: 54%
  - Research: 30%
  - Other Inst Activity: 12%
  - Other Spons Activity: 4%
  - SEI Research: 1%
- **Library**: 3.8%
  - Instruction: 74%
  - Research: 21%
  - Other Inst Activity: 1%
  - Other Spons Activity: 1%
Effective Overhead Rate

- Effective overhead rate = \( \frac{\text{F&A recovered}}{\text{Total Direct Sponsored Cost}} \)

- FY17 effective rate = 28%
<table>
<thead>
<tr>
<th>School</th>
<th>Year</th>
<th>Rate Type</th>
<th>Cognizant Agency</th>
<th>Capped On Campus</th>
<th>Capped Off Campus</th>
<th>Total Spons R&amp;D expenditures - FY14</th>
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</thead>
<tbody>
<tr>
<td>Cal Tech</td>
<td>FY 2018</td>
<td>Fixed/Predetermined*</td>
<td>ONR</td>
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<td>RPI</td>
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<td>Penn</td>
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<td></td>
<td></td>
<td></td>
<td>56.0% with CF</td>
<td></td>
<td></td>
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<tr>
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<td>DHHS</td>
<td>55.5%</td>
<td>26.0%</td>
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</tr>
</tbody>
</table>

* Cal Tech’s on campus rates are fixed and off campus rates are predetermined.

MIT’s rate includes negative CF due to an audit finding, rate is in low 60’s; off-campus rate is so low because Lincoln Labs (FFRDC) is included in MIT rates; CMU negotiates a separate rate for the SEI which is 12%