



University of Colorado Denver

Fiscal Policy

Title: Facilities and Administrative Costs, 4-4

Source: Office of Grants and Contracts

Prepared by: Director of the Office of Grants and Contracts, Anschutz Medical Campus

Approved by: Vice Chancellor for Research

Effective Date: January 1, 2008

Replaces: UCD Fiscal Policy for Facilities and Administrative Costs 4-4, July 1, 2005

Applies: All campuses

A. Introduction

The purpose of this policy is to establish the University of Colorado Denver (UCD) guidelines for the acquisition and use of facilities and administrative cost recovery (facilities and administrative costs is the term used by the Federal government when referring to indirect costs).

It is the responsibility of every level of both academic and administrative personnel to ensure compliance with this policy.

This policy applies to all sponsored projects processed through UCD Grants and Contracts and the associate facilities and administrative costs and recovery.

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C. Policy Statement

Authority for Facilities and Administrative Cost Recovery Revenue

The Chancellor has authority and control over the disbursement of facilities and administrative cost recovery revenue. All facilities and administrative cost recovery revenue must be budgeted, allocated, and expended in compliance with state and federal laws, policies of the Board of Regents, and University Administrative Policies.

The Vice Chancellor for Administration and Finance is responsible for negotiating the facilities and administrative cost recovery rates with representatives of the federal government. Consultation with the President's Office and campus administration will be sought during the negotiation process.

Principal investigators, chairs, and deans are not authorized to negotiate a rate that is less than the approved rate for facilities and administrative costs. Institutional approval through the formal campus approval process is necessary prior to any commitment of waiver to a sponsor or potential sponsoring entity.

Principal investigators, chairs, and deans are responsible for identifying the proper facilities and administrative cost rate (for example which type of rate applies, whether a project is on-campus or off-campus, research or instruction, etc.). Final determination regarding the proper application of facilities and administrative cost rate shall be the responsibility of Grants and Contracts.

D. Definitions

1. Administrative Costs typically include the costs of centralized administrative services within a department, school, and campus. For example, administrative costs include the costs of providing financial information about projects to internal and external constituents.
2. Direct Costs are those costs that can be identified with a specific UCD activity, or that can be assigned to such activities relatively easily with a high degree of accuracy.
3. External Facilities and Administrative Cost Waivers are waivers dictated by published policy of governmental or non-profit sponsors.
4. Facility Costs are costs incurred to pay for physical space including utilities, routine maintenance and repairs, and custodial services.
5. Facilities and Administrative Cost Recovery (also referred to as indirect cost recovery) is the reimbursement (by external sponsors) of the facilities and administrative costs of sponsored projects.
6. Facilities and Administrative Cost Recovery Rate is the percentage rate normally applied to modified total direct costs in order to derive facilities and administrative cost recovery (some sponsors use total direct costs or another base for calculating allowable facilities and administrative costs instead of modified total direct costs). An example of the normal calculation is as follows: A rate of 50% would yield \$50,000 of facilities and administrative cost recovery on a sponsored program with \$100,000 of modified total direct costs. Facilities and administrative cost recovery rates vary depending on the type of sponsored program activity and are derived by dividing the total facilities and administrative costs by the modified total direct costs. The rate is calculated using historical facilities and administrative cost data and is applied to sponsored project activity in subsequent years. Although detailed cost studies for facilities and administrative costs are prepared, the actual rate agreement with the federal government is negotiated. A summary of the current rates applicable to the various types of awards are provided in Exhibit A1. See Exhibit A2 for the UCD Negotiated Facilities and Administrative Cost Rate Agreement.

7. Facilities and Administrative Cost Recovery Revenue is the actual amount of facilities and administrative cost reimbursement received from the external entities that sponsor UCD projects. This revenue is recorded in the Unrestricted Fund and is considered reimbursement for incurred facilities and administrative costs.
8. Facilities and Administrative Cost Waivers are reductions in the application of the facilities and administrative cost recovery rates. Facilities and administrative cost waivers include external and internal cost waivers. See D.3 and D. 12 for definitions.
9. Facilities and Administrative Costs, for sponsored project costing purposes, are those that are incurred for common or joint objectives (research, instruction, public service, or patient care) and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other UCD activity. Federal guidelines refer to these costs as “facilities and administrative” costs. OMB Circular A-21 defines facilities costs as “depreciation and use allowances; interest on debt associated with certain buildings, equipment and capital improvements, operation and maintenance expenses and library expenses.” Administrative costs are defined as “general administration and general expenses, departmental administration, sponsored projects’ administration, student administration and services, and all other types of expenditures not listed specifically under one of the subcategories of facilities.” If UCD treats a particular type of cost as a facility and administrative cost of sponsored agreements, all costs incurred for the same purpose in like circumstances must be treated as facilities and administrative costs of all activities at UCD.
10. Gifts are charitable contributions for use by the institution exclusively to fulfill its exempt purpose(s). There can be no expectation of economic benefit on the part of the donor. A gift should not include any of the issues identified below as a sponsored program.
11. Indirect costs are the former term used by the Federal government, to refer to what is currently referred to as “facilities and administrative costs”. See Facilities and Administrative Costs for definition, D.9.
12. Internal Facilities and Administrative Cost Waivers are waivers that are not defined as external waivers, such as waivers requested by the principal investigator, waivers requested or dictated by for-profit sponsors, or waivers not required by published policy of governmental or non-profit sponsors.
13. Modified Total Direct Costs are direct costs of a sponsored project less certain direct costs that are not considered by the federal government to be eligible for applying the facilities and administrative cost recovery rate. The excluded direct costs are negotiated with the federal government, but typically include items such as capital equipment.
14. Off-campus project is a project in which more than 50% effort of the project (excluding subcontracts) is conducted at an off-campus location by university employees. Off-campus is defined as locations other than university owned or operated facilities, and the costs of physical plant and library are not applicable to the project as indirect costs. See Exhibit D for a list of off-campus locations. If UCD is paying the space cost as a direct charge to the sponsored project, the project is considered off-campus.

15. On-campus project is a project where UCD employees provide 50% or more of their time and effort on a project, which is conducted at locations in University, owned or operated facilities such that University physical plant, library and/or related costs are applicable as indirect costs. If UCD is leasing the space through Central Services and Administration (CS&A) funds, the project is considered an on-campus project. See Exhibit D for a list of on-campus locations.
16. Sponsored agreement is any grant, contract, or other agreement that is used to fund a sponsored project.
17. Sponsored Projects are research, instructional, or public service activities that are related to the mission of UCD and sponsored by external agencies or entities. Facilities and administrative cost recovery is not a factor in determining whether funding is a sponsored project. Application/award issues that require administration by Grants and Contracts include any one of the following:
 - a. the award is a grant or contract from a governmental entity;
 - b. sponsor support is directed to satisfy specific, programmatic objectives that are to be accomplished within a specific time and budget framework;
 - c. the sponsor is entitled to receive some deliverable, such as a detailed technical report of research results or a report of expenditures;
 - d. there is a provision for audits by or on behalf of the sponsor;
 - e. the funding is for a project with compliance issues including, but not limited to: human subjects, animal use, biohazards, and biosafety;
 - f. publication restrictions, patent, or licensing rights are requested by the grantor.

E. Procedures

Application of the Facilities and Administrative Cost Recovery Rate

1. Sponsored Projects versus Gift

Distinguishing characteristics between sponsored programs and gifts have been identified in the “Definitions” section. For the purposes of this policy, such classification will not be determined based on the applicability of facility and administrative cost recovery rate. Under no circumstances will a potential donor, grantor, or contracting party be advised that facilities and administrative cost recovery can be avoided by processing a transaction through the University of Colorado Foundation. The Vice Chancellor for Administration and Finance has the final authority for determining the proper classification of a sponsored project versus a gift. All gifts are to be processed through the University of Colorado Foundation. Sponsored agreements, including grants, will be processed through UCD Grants and Contracts.

2. Clinical Trials

Sponsored clinical trials generally will be assessed the off-campus facilities and administrative cost recovery rate because a majority of the activity is generally conducted off-campus, i.e., at one of the hospitals affiliated with UCD. Facilities and administrative Costs will not be assessed against COMIRB fees associated with protocol review. Separate policies contain greater detail on the proper administration of a clinical trial.

3. Waiver of Facilities and Administrative Cost Recovery

The appropriate, approved facilities and administrative cost recovery rate will be sought on all sponsored programs whether they are from private or public sources. Application of the standard facilities and administrative cost recovery rate can only be waived in extenuating circumstances. It should be recognized that waiver of facilities and administrative cost recovery results in two undesirable consequences. First, the facilities and administrative costs incurred by UCD are not recovered for the particular sponsored project activity. Secondly, when future facilities and administrative cost recovery rates are negotiated, unrecovered facilities and administrative costs cannot be included in the next calculation of the facilities and administrative cost recovery rate.

Sponsors are expected to pay full costs except where prohibited by approved legislative, regulatory, or programmatic restrictions. Examples of Federal programs with special rates are:

- a. Conference and travel grants
- b. Training grants
- c. Career development awards

If a government or non-profit sponsor has a published, consistently applied policy establishing a specific facilities and administrative cost rate (also referred to as indirect costs or overhead costs) for their project(s), that rate will be honored by UCD. For non-profit, charitable associations, foundations and societies, which do not have an established policy, the UCD project must initially be proposed at a facilities and administrative cost rate of no less than 10%. All waivers requested from for-profit sponsors must be processed through the waiver process defined below.

4. Obtaining a Waiver of all or Part of Facilities and Administrative Cost Recovery

Waivers or reductions in the application of the facilities and administrative cost recovery rates may be allowed if the governmental or non-profit sponsor maintains a uniformly applied, written policy precluding full reimbursement of facilities and administrative cost recovery. If not addressed by sponsor policy, the following types of awards are usually considered appropriate for a waiver:

- a. Fellowship awards.
- b. Awards solely for the purchase of equipment.
- c. Awards solely to cover travel expenses.
- d. Institutional support grants.
- e. Professional society/association grants with the purpose of allowing a faculty member to fulfill his/her responsibility as an elected officer or official.

f. Awards to further volunteer activities.

Waivers dictated by governmental or non-profit sponsors will be referred to as external waivers. Waivers requested or dictated by for-profit sponsors or not required by published policy of governmental or non-profit sponsors will be referred to as internal waivers. All internal waivers or reductions must be approved through the formal process outlined in the procedures of this policy. Waiver requests must be endorsed by the principal investigator's department chair and the school dean prior to submission of the request to a standing committee of UCD faculty and administrative staff that will make recommendations to the Vice Chancellor for Research for approval or disapproval. Requests must be submitted using the Facilities and Administrative Cost Variance Request form, Exhibit B1; information on the variance process is attached as Exhibit B2. A waiver of more than \$150,000 must be submitted to the President's Office for approval. The UCD Grants and Contracts Director will monitor and maintain reporting of all waiver requests. If a waiver is granted, every effort should be made to recover infrastructure costs (facilities and administrative costs) as direct expenses of the sponsored program.

Investigators must resolve any facilities and administrative cost issues prior to the routing of any application whenever possible. When a governmental or non-profit sponsor deadline is not sufficient to allow a variance request to be fully routed through the campus approval process and the sponsor does not have a published policy, but a key sponsor representative has indicated that the project will not be funded unless the proposal includes a waiver of facilities and administrative costs, the following alternative may be used: a) the variance request must be endorsed and forwarded to Grants and Contracts by the departmental chairperson and the school dean or designee prior to institutional endorsement of the application or proposal; b) the Director of Grants and Contracts must concur and may contact an administrative representative of the sponsor to verify the requirement(s) and/or review the waiver to determine if the investigator made a reasonable effort to request the variance in a timely manner, and c) applications or proposals that include pending facilities and administrative costs variance issues must acknowledge that any rate proposed is subject to institutional approval. All facilities and administrative cost issues must be resolved before an award will be accepted in Grants and Contracts on behalf of UCD.

5. Rebudgeting Actions Impacting Facilities and Administrative Cost Recovery

Rebudgeting of awarded direct cost monies from a cost category that is excluded from F & A recovery to one that is included will result in the award being assessed the F & A rate applicable to the award. For example, equipment monies rebudgeted and spent in the supply category, or subcontract monies in excess of \$25,000 from a NIH project for a collaborating university that are subsequently rebudgeted into UCD personnel costs, will result in F & A being assessed against those direct cost expenses. See also Fiscal Policy 4.2, Expenditure Contracts and/or Subagreements Under Sponsored Awards, Section III.K, Subcontract Cancellation and Subsequent Rebudgeting into Other Cost Categories.

6. Treatment of Fixed-Price Agreements Residual Balances

There may be circumstances in which the amount of sponsor support for a fixed-price agreement may exceed the full, actual costs of conducting the research or other activity. If a residual balance exists, the principal investigator must make certain that all direct costs of conducting the fixed-price agreement were charged to the program/project. In the event that adjustments are necessary, they must be made before residual balances are used for other purposes.

Once the agreement is concluded, UBIT issues are resolved, and research or other deliverables are complete, full appropriate facilities and administrative charges will be assessed and then the residual balance in the project will be transferred to the auxiliary fund. A fixed-price agreement that received a facilities and administrative waiver and has a residual balance will have the full appropriate facilities and administrative assessment based upon total revenue amount received during the project, less any exempt expenses, before any residual balance is transferred.

C. Distribution of Facilities and Administrative Cost Recovery Revenue

1. Distribution to the Schools

A distribution of facilities and administrative cost recovery revenue will be made to the schools each fiscal year to facilitate the continued support of the sponsored project environment. The formula is presented in Exhibit C and is based on the following principles:

- a. The distribution is calculated on a fiscal year basis and can go up or down based upon the growth or decline in total facilities and administrative cost recovery revenue from the previous fiscal year.
- b. Declining facilities and administrative cost recovery revenue results in a progressive decrease in the distribution from 20% to 17.5% of total facilities and administrative cost recovery revenue.
- c. A base of 17.5% of total facilities and administrative cost recovery revenue is the minimum base distribution to the schools.
- d. A base of 20% of total facilities and administrative cost recovery revenue is the maximum base distribution to the schools.
- e. Increasing facilities and administrative cost revenue results in a progressive increase in the distribution from 20% to 50% of the increment of facilities and administrative cost recovery revenue from the previous fiscal year. The 50% distribution of the incremental facilities and administrative cost recovery revenues is the maximum ceiling for allocation of the incremental facilities and administrative cost recovery revenue from the previous fiscal year.
- f. The actual distribution of facilities and administrative cost recovery revenue under this formula may be modified for campus initiatives such as the renovation or construction of research space.

If an under-funding of the campus operating budget occurs, decisions to modify the distribution of facilities and administrative cost recovery revenue will be

evaluated as a part of the UCD budget process. Furthermore, implementation of University budget policies or principles that restrict UCD's flexibility to manage facilities and administrative cost recovery revenues can result in decisions to modify facilities and administrative cost recovery distributions.

2. Calculation of the Facilities and Administrative Cost Recovery Distribution

The distribution will be calculated based on the actual facilities and administrative cost recovery reimbursed from the sponsor on sponsored projects of each school. Waivers or reductions of the approved facilities and administrative cost recovery rate will therefore, result in a decreased distribution of facilities and administrative cost recovery revenue.

3. Budgeting the Facilities and Administrative Cost Recovery Distribution

The facilities and administrative cost recovery distribution will be budgeted each fiscal year based on the revenue projections developed in the annual budget process. The budgeted distribution to each school will be based on that school's proportionate share of the previous year's actual facilities and administrative cost recovery revenue. The distribution will be budgeting at the school level; therefore, the schools will be responsible for budgeting beyond this level in the organization.

Seventy-five percent of the budgeted distribution for each school will be authorized for use as of July 1 of each fiscal year. The remaining 25% will be budgeted in a reserve program. The reserve account will be authorized for spending authority if actual facilities and administrative cost recovery revenue, as of the third quarter of the fiscal year, is relatively close to projected revenue. After the third quarter, authority for spending the budgeted reserve program will be granted by the Associate Vice Chancellor for Financial and Business Services.

4. Reconciling the Facilities and Administrative Cost Recovery Distribution

After the close of each fiscal year, a reconciliation of actual versus projected facilities and administrative cost recovery revenue will be performed. If the budgeted distribution to any school is greater than the actual distribution earned, the school will be responsible for returning the difference. Conversely, any budgeted distribution that is less than actual earnings will result in an additional distribution to the school.

5. Use of the Facilities and Administrative Cost Recovery Distribution

The aim of the facilities and administrative cost recovery distribution is to empower the schools to make investments that will both maintain and enrich the UCD research enterprise. Within the construct of this philosophy, each Dean will develop a policy and plan for the use of the facilities and administrative cost recovery distribution.

F. Reference

1. UCD Fiscal Policy 4-5 on Sponsored Projects Application/Proposal Approval Process

2. UCD Fiscal Policy 4-1 on Clinical Trials
3. Office of Management and Budget Circular A-21
4. University of Colorado Administrative Policy Statement for Indirect Costs Recoveries
5. Historical reference: the term “facilities and administrative” replaces the term “indirect” as previously used by the Federal government.