

Summary of the Western Michigan University Facilities & Administrative Rates (F&A) Formerly Indirect Cost (IDC)

Indirect costs (IDC) or “overhead” (now called Facilities and Administrative, or F&A costs) refer to real expenses, part of the cost of carrying out the University’s research mission. They are best understood by comparison to the direct cost of doing research.

Direct cost, as defined by the federal government, are 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. Typical direct costs are the compensation of employees for work performed under the sponsored agreement, and the costs of materials consumed or expended in the performance of the work. In some cases, equipment for conducting the research under the sponsored agreement is included in direct cost.

Facilities and Administrative costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, but contribute to the ability of the University to support research projects and programs. Expenses of maintaining and operating the University’s facilities and services, such as building (lab and office space), utilities (water, electricity, heating, and air conditioning), general administration (purchasing, accounting, payroll), departmental administration (dean’s offices, academic departments and divisions) and so forth.

The resources required to undertake a sponsored project are determined by accumulating the associated direct as well as the F&A costs. To overlook such costs within the area of sponsored projects would inaccurately attribute applicable F&A costs to other activities of the University. F&A costs do not disappear simply because a sponsor refuses to pay for them; the University must pay these actual costs from other sources.

To allocate F&A costs to sponsored projects the Federal Office of Management and Budget, working with representatives from the Higher Education Community, developed the federal government through Code of Federal Regulations Title 2: Grants and Agreements Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2CFR Part 200) which establishes accounting principles upon which an F&A Rate can be negotiated. This rate represents the proportion that F&A costs are to direct costs. This rate then becomes the basis for recovering F&A costs. It is negotiated periodically by the Grants and Contracts Office and WMU’s cognizant federal audit agency, i.e., the U.S. Department of Health and Human Services (DHHS). The negotiation process is subject to a detailed review by federal auditors.

Western Michigan University’s F&A rates for the period July 1, 2015 through June 30, 2021, were approved by the DHHS on December 15, 2016, and are as follows:

Project Type	7/1/2015 - 6/30/2017	Locations
Organized Research & Instruction	50%	On campus
Organized Research & Instruction	24%	Off campus
Other Sponsored Projects	24%	All programs

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Organized Research & Instruction	51%	On campus
Organized Research & Instruction	24%	Off campus
Other Sponsored Projects	24%	All programs

These rates are applied to all direct costs of a sponsored project except for items of equipment, capital expenditures, charges for patient care, tuition remission, rental costs of off-site facilities, scholarships, and fellowships as well as the portion of each subgrant and subcontracts in excess of \$25,000.

Off campus is defined as all activities performed in facilities not owned by the institution and to which rent is directly allocated to the project(s). Grants or contracts will not be subject to more than one F&A cost rate. If more than 50% of a project is performed off-campus, the off-campus rate will apply to the entire project.

Equipment is defined as an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

A general description of the seven areas or cost pools from which F&A costs are derived is provided below:

Administrative

General Administration and General Expenses – These are expenses for executive administration, the business office, and most other offices serving the entire university, i.e., President, Provost, Human Resources, General Counsel, as well as a variety of other central administrative functions.

Departmental Administration - These are administrative and support expenses of departments, colleges, and divisions, which benefit common or joint activities. Examples include salaries for the administrative portion of the unit administrator and support staff, office supplies, local phone, postage, and membership costs. Also included are other professorial or professional staff whose appointments or assignments include administrative work.

Sponsored Projects Administration - These are expenses of separate units established to administer sponsored projects. Several offices are involved (including Office of the VP for Research, Research and Sponsored Programs, and Grants and Contracts), performing services such as proposal review, contract negotiation, fiscal management, financial report preparation, and billings.

Student Administration and Services – These are expenses associated with the administration of student affairs and the provision of services to students. Examples include, Dean of Students, Admissions, Registrar, student counseling and placement services, student advisors in the office of Undergraduate Admissions, student health services, catalogs, commencements, convocations and similar activities.

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Facilities

Operations and Maintenance of Plant - Included are costs of operating and maintaining the physical plant, i.e. heating, lighting, custodial services, care of grounds, campus security, and routine maintenance of buildings.

Building and Equipment Costs - The institution is credited for providing buildings and equipment to sponsored projects by taking depreciation on buildings and equipment. Some classes of equipment are depreciated over a more reasonable useful life. Equipment and buildings purchased with federal funds are excluded from depreciation. Based on space utilization studies an estimate is made of the portion of building use which can be attributed to the research effort. Also, the interest costs associated with new buildings and equipment that is paid to external parties is included here.

Library - Included here is a share of all expenses of the library including the cost of books, and library materials. Small departmental libraries, operated by academic departments are not included.

The Rate Calculation

The definition, calculation, and application of the F&A cost rate is governed by federal regulation. Several categories of cost are defined, limited, or, in some cases, entirely excluded by the regulations. Most of the methods are specified, but where flexibility exists in the regulations, the University may propose modification or exceptions. When completed, the overall rate calculation, called the F&A cost study, is reviewed for compliance with Federal regulations. Studies which serve as "base" years for rate-setting undergo complete governmental audit and negotiation.

Allocations and the F&A Cost Pools

In the University's cost accounting process, each category of expense is allocated according to a specific allocation base among the functions benefiting from the service. Allocation bases are developed from current year data converted to percentages that are used to spread the F&A costs among several functions, such as instruction, research, and other academic activities. There may be multiple allocations or steps within each category. In most cases, formulas and methods are specified by federal regulations. Bases are chosen to reflect, within reason, the services provided or benefits derived. For example, library expenses are allocated according to a combination of population figures and the salaries and wages most closely associated with the function served by the library. Facilities expenses are allocated according to space usage, and sponsored project administration on the basis of modified total direct costs of all sponsored projects.

MTDC Base

The modified total direct cost base has been specified by the federal regulations as a method of reasonably assigning the F&A cost pool to individual projects on an average basis. The MTDC base includes all direct costs on all projects with certain costs excluded, such as equipment,

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renovations, a portion of subcontracts, patient care, and tuition. These costs are excluded from the MTDC base to prevent an inappropriately large assignment of costs to a particular project.

Application of the Rate

Since the F&A cost rate is an average, the dollars charged to a particular project are not necessarily equal to the amount of F&A costs actually incurred by that project. For example, two NSF grants in Mathematics and Chemistry, each incurring \$50,000 of direct cost, would be assessed the same amount of F&A costs. However, if one could measure the F&A cost actually incurred for the two projects, one would find the project in Mathematics incurred lower F&A costs than the average represented by the rate, and the Chemistry project incurred far greater costs. This is caused primarily by the vastly different facilities expenses involved in supporting the two projects.

Sources of Federal Guidelines

- **Code of Federal Regulations Title 2: Grants and Agreements Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.**

<http://www.ecfr.gov/>

Sources of Other Pertinent University Policies

- [WMU Guidelines on Recovery of Facilities and Administrative \(F&A\) Costs \(OVPR\)](#)