Facilities and administrative (F&A) costs, also known as indirect costs (IDC) are expenses that cannot be directly charged or easily allocated to a specific externally sponsored grant, contract, or other sponsored agreement (grants). Examples of F&A costs include facilities expenses such as utilities, custodial services, and physical plant; and administrative expenses such as salaries and operating costs for departments such as human resources, the controller, payroll, accounts payable, legal counsel, procurement/property services, travel, technology services, library, audit services, and sponsored projects. They may also include departmental and college administrative costs such as clerical support, telephone, and copying incurred for a common or joint purpose that benefit more than one university unit/activity and that are not readily assignable to a specific unit/activity. They also are known as Facilities and Administrative (F&A) or overhead costs. In most instances, grantors and funding entities agree to reimburse the university for the overhead expenses of conducting research, education, and service projects. This policy establishes guidelines for the recovery, distribution, and use of such reimbursements from externally funded grants, contracts, and cooperative agreements.

F&A cost rates are negotiated by the university with a federal cognizant agency, which for SFA is the Department of Health and Human Services. In accordance with 2 C.F.R. § 200.414(c), federal agencies must accept these negotiated rates unless a different rate is required by regulation, statute, or program.

Indirect F&A Cost Recovery

The principal investigator (PI) or project director (PD) must include F&A indirect cost rates in a proposed budget for all grants and contracts, and other sponsored agreements at the maximum rate allowed by the sponsor. The PI or PD will use the university’s official, full, federally negotiated indirect cost F&A rate for all grants, contracts, and other sponsored agreements unless a sponsor has a formal, written policy that specifically limits or disallows payment of F&A costs specifically limited by a sponsor for all awardees.

In extraordinary circumstances, a PI or PD may request a reduction or waiver of full indirect F&A costs. Such waiver/reduction requests must be recommended by the director of the Office of Research and Sponsored Programs (ORSP) and approved by the provost and vice president for academic affairs and approved by the president before a budget with the reduced IDC-F&A rate is submitted to a sponsor for consideration. This applies to all forms of
grants, contracts, and all other forms of sponsored agreements. Failure to comply may require a budget revision and/or renegotiation of a contract and may jeopardize or delay receipt of an award. A PI/PD is not authorized to negotiate alternative indirect cost rates with a sponsor.

**Indirect-Cost Recovered F&A Distribution and Use**

Recovered F&A is subject to All recovered indirect costs shall be expended to support and encourage further research and sponsored projects at SFA according to the provisions of the Texas Education Code, Section 145.001:

“The retained funds are subject to the following requirements:

1. The funds shall be expended under guidelines approved by the institution's governing board for projects encouraging further research at the unit, agency, or department level at which the research was conducted, including:
   a. conducting early pre-grant feasibility studies;
   b. preparing competitive proposals for sponsored programs;
   c. providing carryover funding for research teams to provide continuity between externally funded projects;
   d. supporting new researchers pending external funding;
   e. engaging in research programs of critical interest to the general welfare of the citizens of this state;
   f. purchasing capital equipment directly related to expanding the research capability of the institution; and
   g. research or project administrative costs; and

2. the funds remaining after the application of Subdivision (1) shall be used by a general academic teaching institution or a medical or dental unit to support research as approved by a general academic teaching institution or a medical or dental unit.”

145.1. Authorized activities include:

1. conducting pre-grant feasibility studies;
2. preparing competitive proposals for sponsored programs;
3. providing carryover funding for research to provide continuity between externally funded projects;
4. supporting new researchers pending external funding;
5. engaging in research programs of critical interest to the general welfare of the citizens of the state;
6. purchasing capital equipment directly related to expanding the research capability of the institution; and
7. providing research or project administrative costs not covered by the funding entity.

The university shall report the actual amounts of money retained and expended under this
policy and the estimated amounts for the next biennium in its report to the Legislative Budget
Board as part of the biennial budget reporting process.

The academic units that generated the recovered indirect F&A costs from restricted research
shall will receive fifty percent of the total IDC-F&A recovered revenue from in a fiscal year,
based on a formula recommended by the University Research Council and approved by the
provost and vice president for academic affairs. If an IDC-F&A rate reduction was granted for a
project, the amount recovered from that project will be excluded from the distribution formula.
The distributions shall be calculated are made by ORSP and approved by the Controller’s
Office after the close of each fiscal year, based on indirect F&A costs recovered the previous
fiscal year. Reports summarizing the use of these funds must be submitted to the controller’s
office annually. The administrative cost allowance generated by financial aid programs is not
considered in the distribution formula.

*The university will report the actual amounts of money retained and expended under this policy
and the estimated amounts for the next biennium in its report to the Legislative Budget Board as
part of the biennial budget reporting process.*

**Fixed-Price Agreements**

Fixed-price agreements are awards where the university agrees to perform work or deliver a
product within a specified period at a price agreed to in advance that is payable in full regardless
of actual costs incurred. Therefore, there may be a residual balance. In determining the price of a
contract, the PI or PD must consider actual costs, the university’s indirect cost rate, and
anticipate potential cost overruns. Internal operating budgets for fixed-price awards are required,
and award funds must be used during the term of the award in support of the statement of work.
The PI or PD is responsible for charging all appropriate operating expenses to the award
account, including salary at a level commensurate with the effort committed to the project.

If an IDC waiver or reduction has been granted, after the project end date and all expenses
allocable to the project have been recorded, the full federally-negotiated indirect cost rate will be
charged against any residual balance. A residual balance should be no more than 30% of the
original balance after all expenditures and indirect costs have posted. If the percentage exceeds
30%, the remaining balance may be returned to the sponsor. Once it is established that the PI or
PD has submitted all required deliverables and reports and they have been accepted by the
sponsor up to $10,000 or 25% of any remaining balance, whichever is less, will be transferred to
a fixed-price residual (FPR) fund for the PI or PD, or into an FPR fund established for a
university-recognized center. Fixed-price residual funds must be used for on-going research
activities or to support the goals and objectives of the PI, PD, or center, in accordance with state-
and university regulations, policies, and procedures. Any remaining balance in excess of 25% or $10,000 will be transferred to a designated fund pool to be used in support of research and development.


Responsible for Implementation: Provost and Vice President for Academic Affairs

Contact for Revision: Director, Office of Research and Sponsored Programs

Forms: Request for Indirect F&A Cost Rate Reduction or Waiver

Board Committee Assignment: Finance and Audit