Indirect costs primer for contract and grants financial managers

PREPARED BY: JANET REYES, CONTRACTS AND GRANTS MANAGER

Think of indirect costs like taxes you pay at the store

Some items are exempt from sales tax, such as food at the grocery store or school-related items during designated back-to-school shopping.

Indirect costs work the same way. Some budget categories don't incur "taxes" aka indirect costs.

Why it matters:

When you go to the store and think "I have $100 to spend on groceries," you have to keep in mind how much of that $100 you can spend versus how much goes to sales tax. If you are buying soda, for example, there are taxes applied, so even though you have $100, you cannot put $100 worth of items in your cart or you won't have enough funds. Indirect costs work the same way. You must hold back enough to cover those costs.

What do indirect costs pay for?

Indirect costs are any costs that cannot be directly identified as belonging to a sponsored project but are necessary and benefit the project and other activities. These expenses are typically referred to as the cost of doing business.

Examples of indirect costs:

Utilities, such as water and electric
Internet/Phones
Equipment
Computers
Software
Administrative support staff
Physical Facility staff
Rent
General office supplies
Accounting
Furniture
Postage
Printing

TDC vs MTDC

TDC: Total Direct Costs
MTDC: Modified Total Direct Costs

These terms determine the base for what is "taxable" for your project.

A project with a TDC base, typically has a very low indirect cost rate so, therefore, everything earns F&A or is "F&A bearing."

A project with a MTDC base typically has a negotiated indirect cost rate and adheres to USF's DHHS agreement on what will earn F&A. Some items are F&A bearing while others are not. These categories are defined in our indirect cost rate agreement with DHHS.

*BASE

Modified total direct costs, consisting of all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel and up to the first $25,000 of each subaward (regardless of the period of performance of the subawards under the award). Modified total direct costs shall exclude equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

Per USF's agreement with DHS, items exempt from F&A are limited to: equipment, capital expenditures, patient care, rental costs, tuition, scholarships/stipends/fellowships, participant support costs (does not include participant payments), and subawards exceeding $25k.

Sponsors may sometimes deem other categories exempt from indirect costs within their RFP.

Reconciliation Impact

Project financial managers should anticipate F&A expenses based on their projected expenses. For example, if you have projected salary and fringes, you should also project F&A on those funds. This will ensure that the project is capturing F&A correctly and will let the PI know their true RSA balances.

The importance of monitoring expenses for F&A

If a subcontract invoice is sent to AP and booked to the <$25k expense, it will be charged F&A even if that contract is already over $25k.

It's very important to make sure that the first $25k of a subcontract is booked to <$25k with the remainder booking to >$25k.

Failure to monitor these expenses can mean a loss in spendable funds to the project.

How do we account for projected F&A on a reconciliation

Cost Reimbursable-TDC

Projected expenses x F&A rate

Cost Reimbursable-MTDC

Projected expenses less tuition, subcontracts over $25k, student stipends/scholarships, and rental space x F&A rate

Fixed Price

If a project is fixed price (not fixed price schedule), you can anticipate that RFM will take the entire budgeted amount for F&A. Therefore, you can expense the entire amount budgeted as a projection.

This information is found on the Research Award Notice from Sponsored Research

F&A Rate:	10.00
F&A Base:	Modified Total Direct Cost (MTDC1)
CFDA #:	
Fix/Reimb:	Cost Reimbursable

Do This:

-Treat F&A as any other budget line that you reconcile. It's important

-Include F&A accurately based upon your projections

-Monitor expenses to ensure F&A is being calculated correctly for both F&A bearing and non-FA bearing expenses

-Alert the PI and department leadership if F&A doesn't look right

Not this

-Think that F&A doesn't matter

-Zero out F&A on your reconciliation instead of reconciling F&A expenses and projecting accurately

-Assume that F&A is being captured correctly

-Consider F&A a job for RFM alone

-Ignore potential issues by not bringing them to the attention of RFM, the PI or CFS leadership

When in doubt:

- Review the hand off form, which should include F&A instructions
- Review the funded budget
- Review the budget narrative
- Ask the Pre-award team for help