

## RECOVERY and DISTRIBUTION of INDIRECT or F&A COSTS

Some grant and sponsored project funders provide *indirect costs, overhead, or facilities and administration costs* as a portion of awarded funds. Indirect cost recovery reflects real costs of the institution in carrying out externally funded activities; they are not profit generated by such a project. These funds are meant to reimburse the institution for associated projects costs that are difficult to enumerate as budget line items such as utilities, custodial services, depreciation, library services, general administration, etc. These are the additional support costs which are often hidden but help provide a positive environment for sustaining such sponsored projects.

This policy is guided by the compliance standards set forth in OMB's Uniform Guidance (2 CFR 200), which represents the cost principles for educational institutions.

### Definitions

*Indirect Costs (IDC or Facilities and Administrative Costs (F&A))* are defined as expenses related to general operations of an organization that are shared among projects and/or functions, but are not easily identified with nor directly allocable to a specific project.

A commonly cited maximum is one's *federally negotiated rate*. Nonprofits such as Earlham can negotiate a Facilities & Administration cost rate through a "cognizant agency" of the US Federal government based on a full accounting of business expenses.

*Project Director (PD, also Principal Investigator (PI))* is the individual with the primary responsibility for carrying out the project, including reporting to the agency.

### Charging of Indirect Costs

Many funders do not allow charging of indirect costs. However, for those that do permit such costs, Earlham's policy is that the maximum allowable should be charged<sup>1</sup> for all grant applications and sponsored projects. The Controller or Assistant Controller must approve all budgets, including the charging of indirect costs, prior to proposal submission.

The Office of Grants and Sponsored Research (OGSR) can confirm the College's current federally negotiated rate.

### Allocation of Funds Recovered from Indirect Cost Accounting

Funds recovered via accounting of indirect costs will be distributed as follows:

- A. 50% returned to Earlham's general operating budget for cost recovery;
- B. 40% provided to the Chief Academic Officer – College or the School of Religion<sup>2</sup> – to be used at their discretion<sup>3</sup>; and
- C. 10% returned to the active PD(s) to be used at their discretion in support of the funded project, other scholarly pursuits, or departmental costs.

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<sup>1</sup> In limited situations, the Chief Academic Officer or Chief Financial Officer may elect to waive a portion or all of the indirect costs (if funder terms allow) on a specific proposal in negotiation with the PD.

<sup>2</sup> Funds will default to the College unless the sponsored project work is led by School of Religion personnel.

<sup>3</sup> Such discretionary funds will generally be used by the Chief Academic Officer to support faculty professional development and research, equipment funds, matching funds for other grants, etc.

## **Distribution of Recovered Indirect Costs**

Recovered indirect costs will be distributed to the relevant recipients using Banner accounts established for this purpose within Earlham's accounting system.

Consistent with the objective of this policy, funds allocated to the Chief Academic Officer and the PD must be used to support research, creative activities, departmental needs, and other sponsored project activities. This includes administrative support for existing sponsored projects or expenses related to the development of new projects. Other allowable expenses, by account category, include the following:

- Wages for students to assist with research and administrative support of research projects<sup>4</sup>
- Professional development or conference travel
- Equipment, supplies, or services in support of scholarly activities or teaching
- Memberships and subscriptions
- Publication charges

The use of recovered F&A costs for expenses other than those listed above requires the review and approval of the Chief Academic Officer.

These funds will remain in the designated account until spent or until such time as the PD is no longer employed at Earlham. Upon the PD's departure from Earlham, unspent funds will be transferred to the Chief Academic Officer's indirect cost recovery fund.<sup>5</sup>

Note, recovered F&A funds remain institutional funds and therefore all expenses must align with institutional expectations such as those detailed in the Business Expense Policy.

*Revised and approved by Cabinet on 12/4/2022.*

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<sup>4</sup> Summer wages for students require an additional 7.65% to cover FICA and Medicare.

<sup>5</sup> In the event of a PD departure during an ongoing funded project, the Chief Academic Officer may opt to make transferred funds available to the new PD.