

Indirect Costs Policies for Sponsored and Special Programs

Overview

Research and other sponsored activities, as well as special programs initiated at the University, are a basic part of our institutional mission. Funding sources for such programs are the federal government, state and local governments and private entities. Additionally, in order to be responsive to the dynamic and changing needs of New Jersey citizens, businesses and other organizations, the University must be able to offer a variety of special training and instructional programs (credit and non-credit). Such grants and contracts, as well as special programs, typically provide support for the direct and indirect costs that are incurred by the University in conducting those programs.

Direct Costs

The total cost of a sponsored or special program consists of direct and indirect costs. Direct costs are all costs explicitly identified with delivery of the program. Typically, but not exclusively, such costs include:

- *Salaries and Wages*
- *Fringe Benefits*
- *Consultants*
- *Capital Equipment*
- *Travel*
- *Consumable Supplies*
- *Computer Software*
- *Equipment Maintenance and Repair*
- *Printing and Publishing*
- *Photocopying*
- *Telephones*
- *Postage*
- *Conferences*
- *Space Lease/Rental*
- *Subcontracts*
- *Insurance*
- *Recruitment*
- *Remitted Tuition*
- *Scholarships*

These costs are itemized in the program budget.

Fringe Benefits – Several elements are included in Fringe Benefits. Depending on employee type, an aggregate average rate is charged for each employee engaged in a Sponsored Program, Special Instructional Program, Training Program, or Other/Public Service Program.

1. Fringe benefit rates are currently projected as follows:

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|--------------------------------------|-----|
| • Faculty | 30% |
| • Managerial (non-union) | 27% |
| • Administrative/Support Staff (AFT) | 30% |
| • Support Staff (CWA) | 36% |
| • Police | 39% |
| • Maintenance | 43% |

- Part-Time Employees 10%
 - % of Full-Time/Visiting Specialist 16%
2. A rate of 10% will be charged on the salaries of part-time and student employees during the academic year and the summer. This does not apply to students holding graduate assistantships.
 3. All full-time faculty are considered "part-time" for accounting purposes in July and August; a rate of 10% is charged on their salaries during the summer months. The rate is increased if the earnings are pensionable.
 4. These rates will remain in effect through the end of the current fiscal year.
 5. Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages, and are routinely charged to grants and contracts; separate charges for the cost of these absences are not made.

The costs of the following benefits are included in the full-time employees' fringe benefit rate:

- *FICA (social security)*
- *Medicare/Medicaid*
- *Workers' Compensation*
- *Unemployment compensation*
- *Health insurance*
- *Life insurance*
- *Disability insurance*
- *Retirement*
- *Tuition remission*

The costs of the following benefits are included in the part-time employees' fringe benefits rate:

- *FICA (social security)*
- *Medicare/Medicaid*
- *Workers' Compensation*
- *Unemployment compensation*

Cost Sharing for Sponsored Programs - Occasionally, grantors/sponsors require the University to make a contribution toward a project's total cost. Cost sharing represents a real and quantifiable direct cost that must have the approval of the initiating unit head. Approval also must be given by the appropriate school/college dean and the Provost or Vice President. Each initiating unit must explicitly commit existing "on-budget" resources for cost sharing on sponsored projects. Alternatively, the initiating unit could obtain internal cost share funding from the appropriate school/college dean and/or the Provost or Vice President. Since cost sharing is examined and audited by the sponsoring organizations and the University's independent auditor, the budget proposal must specify the exact amount of contributions anticipated and cost sharing expenditures must be accounted for in accordance with grant and University guidelines.

Indirect Costs

Indirect costs are those incurred by the University to support sponsored or special programs but that cannot be directly traced and charged to a specific program.

Generally, examples of indirect costs include:

- *Operation and Maintenance of Facilities*
- *Security and Safety*
- *Financial and Accounting Services*
- *Procurement Services*
- *General Maintenance of University Equipment*
- *General University and Departmental Administrative Expenses*
- *Use of Computing Resources*
- *Library*
- *Equipment and facilities use allowance (depreciation)*

The University recovers all these support costs, in part, by applying an indirect cost rate to each sponsored or special program. Depending on the particular type of program proposed, an appropriate indirect cost rate is applied to Modified Total Direct Costs (MTDC) for non-federally sponsored projects and to Salaries and Wages for federally sponsored projects. Modified Total Direct Costs are calculated as Direct Costs less equipment and capital expenditures, scholarships and fellowships, remitted tuition, rental costs, and the portion of subcontracts in excess of \$25,000 (as per the federal OMB Circular A-21). Salaries and Wages include regular wages and pay for vacation, holidays, sick time and other paid absences.

Administrative Responsibilities

The Dean of the Graduate School approves proposals for sponsored research, special contracts, certificates, and other continuing education programs (credit and non-credit) and ensures application of the University's authorized indirect cost rates. Some grantors/sponsors may require the application of different indirect cost rates, or a complete waiver. Where it is in the interest of the University, particular special contracts, certificates or other continuing education programs may also warrant application of different indirect cost rates. Under such circumstances, the Dean of the Graduate School may modify the University's indirect cost rate. Final program approval is required from the Provost.

The Dean also is responsible for initiating the periodic review of the University's non-negotiated indirect cost rates. As appropriate, and in collaboration with the University Budget Office, the Graduate Dean will make recommendations for changes to the indirect cost rates. Changes to indirect cost rates require approval of the University President.

The University Controller's Office is responsible for negotiating the federal indirect cost rates with the Federal Government.

Approved Indirect Cost Rates

Different types of non-federally sponsored and special program activities require different levels of support. Consequently, (1) Sponsored Research, (2) Special Instructional Programs, (3) Training Programs and (4) Other/Public Service Programs each require different indirect cost rates. Off and on-campus rates for each type are developed as a percentage of Modified Total Direct Costs (MTDC). Approved rates are as follows:

Fiscal Year 2008 - Approved Indirect Cost Rates

<u>Programs</u>	<u>Location</u>	<u>Rates</u>
Sponsored Research	On-Campus	50%
Sponsored Research	Off-Campus	25%
Instruction (credit-based)	On-Campus	50%
Instruction (credit-based)	Off-Campus	30%
Training (non-credit)	On-Campus	50%
Training (non-credit)	Off-Campus	30%
Non-Credit Courses	On/Off-Campus	20%
Other/Public Service	On/Off-Campus	20%

The current negotiated indirect cost rate for federally funded sponsored research programs are: 58%, on campus and 30%, off-campus. This rate is applied to Salaries and Wages.

Distribution of Indirect Cost Recoveries

Indirect cost funds recovered from all Sponsored Research Programs will be distributed by the University Controller. A percentage of indirect costs recovered from Special Instructional Programs, Training Programs, and Other/Public Service Programs will be distributed by the University Budget Office, according to the following schedule:

Fiscal Year 2008 - Approved Rates

General University Fund (Research Programs)	30%
General University Fund (Special Instr./Training Progs.)	30%
School/College Dean's Office	15%
Academic Department	25%
Principal Investigator (minimum share)	10%
Office of Research & Sponsored Programs	20%

As an appropriate incentive, the principal investigator shall be eligible to use a minimum of 10% of the total indirect cost recovery of the program for which she/he is responsible. If it is the judgment of the department chair and dean that the principal investigator should be entitled to more than 10%, the additional resources would be provided from the 25% departmental indirect cost share. Indirect cost recovery funds cannot be used to increase the principal investigator's annual compensation.

Distribution of Net Income

Some Special Programs (but not federally Sponsored Research Programs) may generate income in excess of direct and indirect costs. Under those circumstances, the University Controller will distribute such net income at the end of each fiscal year, according to the following schedule:

Fiscal Year 2008 - Distribution of Net Income

General University Fund	40%
School/College Dean's Office	10%
Academic Department/Unit of Principal Investigator	50%

Verification of Indirect Cost Recovery and Net Income

Except for federally Sponsored Research Programs, distributions of Indirect Cost Recoveries or Net Income will be made by the University Controller subsequent to the closing of each fiscal year. This will permit verification of projected revenues and an audit of expenditures related to each Special Instructional Program, Training Program, and Other/Public Service Programs.

Appropriate Use of Indirect Cost Recovery and Net Income Funds

School/college deans, academic departments and principal investigators will have various uses for funds generated from their share of indirect cost recoveries and net income. Generally these include any purpose for which general University funds may be expended based on State regulatory requirements and University policy, except for increased compensation for the principal investigator. Furthermore, no commitment for multi-year expenditures may be made from these resources. Before funds from indirect cost recoveries or net income are spent, appropriate spending authority must be authorized by the school/college dean for academic departments and principal investigators. Spending proposals for educational purposes by school/college deans must be approved in advance by the Provost.

An Example of an On-Campus Special Instructional/Training Program

Direct Costs	Amount	Eligible For Cost Recovery	Cost Recovery Rate	Indirect Costs Recovered
Salaries:				
Faculty	\$50,000	Yes	50%	\$25,000
Staff	\$30,000	Yes	50%	\$15,000
Part-time Salaries	\$10,000	Yes	50%	\$5,000
Fringe Benefits	\$23,200	Yes	50%	\$11,600
Travel	\$1,000	Yes	50%	\$500
Supplies	\$3,000	Yes	50%	\$1,500
Equipment	\$3,000	No		
Telephones	\$800	Yes	50%	\$400
Printing & Duplicating	\$1,300	Yes	50%	\$650
Remitted Tuition	\$4,000	No		
Scholarships	\$5,000	No		
Total Program	\$131,300			\$59,650
Total Program Cost - Direct Cost Plus Indirect Costs				\$190,950
Revenues Generated From Special Instructional Program				\$300,000
Net Income From Special Instructional Program				\$109,050
Indirect Cost Distribution:				
General University Fund			50%	\$29,825
School/College Dean's Office			15%	\$8,948
Academic Department/Initiating Unit			35%	\$20,878
			100%	\$59,650
Net Income Distribution:				
General University Fund			40%	\$43,620
School/College Dean's Office			10%	\$10,905
Academic Department/Initiating Unit			50%	\$54,525
			100%	\$109,050

An Example of an On-Campus Research Program with Foregone Indirect Costs as Match

Direct Costs	Amount	Eligible For Cost Recovery	Cost Recovery Rate	Indirect Costs Recovered	MSU Match
Project Director	\$22,000	Yes	8%	\$1,760	\$11,440
Part-time Employees	\$12,000	Yes	8%	\$960	\$6,240
Student Assistants	\$9,000	Yes	8%	\$720	\$4,680
Fringe Benefits	\$7,840	Yes	8%	\$627	\$4,077
Travel	\$3,500	No			
Supplies	\$1,000	No			
Equipment	\$500	No			
Telephones	\$250	No			
Printing	\$800	No			
Total Program	\$56,890			\$4,067	\$26,437

Total Program Costs = Direct Costs + Indirect Costs + MSU Match \$87,394

Grant/Contract From Sponsoring Agency \$60,957

Net Income From Sponsored Program (\$26,437)

Indirect Cost Distribution:

General University Fund	30%	\$1,220
School/College Dean's Office	15%	\$610
Academic Department/Initiating Unit	25%	\$1,017
Principal Investigator	10%	\$407
Office of Research & Sponsored Programs	20%	\$813
	100%	<u>\$4,067</u>

An Example of an On-Campus Research Program

Direct Costs	Amount	Eligible For Cost Recovery	Cost Recovery Rate	Indirect Costs Recovered
Salaries:				
Faculty	\$100,000	Yes	50%	\$50,000
Staff	\$70,000	Yes	50%	\$35,000
Part-time Salaries	\$10,000	Yes	50%	\$5,000
Fringe Benefits	\$48,400	Yes	50%	\$24,200
Travel	\$5,000	Yes	50%	\$2,500
Supplies	\$7,000	Yes	50%	\$3,500
Equipment	\$3,000	No		
Telephones	\$800	Yes	50%	\$400
Printing	\$1,300	Yes	50%	\$650
Remitted Tuition	\$4,000	No		
Subcontract Costs:				
First \$25,000	\$25,000	Yes	50%	\$12,500
Above \$25,000	\$15,000	No		
Total Program	\$289,500			\$133,750
Total Program Costs - Direct Costs Plus Indirect Costs				\$423,250
Grant/Contract From Sponsoring Agency				\$423,250
Net Income From Sponsored Program				\$0
Indirect Cost Distribution:				
General University Fund			30%	\$40,125
School/College Dean's Office			15%	\$20,063
Academic Department/Initiating Unit			25%	\$33,438
Principal Investigator			10%	\$13,375
Office of Research & Sponsored Programs			20%	\$26,750
			100%	\$133,750