

INDIRECT COSTS EXPLAINED

Facilities and Administrative Charges (F&A), commonly referred to as indirect costs, are the least understood component of sponsored programs. Indirect costs are often viewed negatively by sponsors and faculty alike. We wish to attempt to define and explain what the costs are and why they play an important role in our efforts to achieve the university's goal to be a Top 30 research institution. Indirect charges are simply costs that cannot practically, or in a cost-effective manner, be directly tied to a single project. Often used illustrations of F&A costs are electricity, water, sewer, general equipment/building depreciation and administrative support. Rarely explained are the administrative support costs, which include salaries and benefits for departmental, college, and university personnel involved in the central administration of the institution.

Every institution accepting federal funds negotiates an F&A rate through their cognizant federal agency, in most cases for a five-year period. Table 1. details Virginia Tech's FY 2002 on-campus negotiated F&A research rate structure. Institutions are required to negotiate different rate structures based upon location of the project (on-campus or off-campus) and based upon the type of project performed (research, instruction, or extension / public service). As you can see the largest component of our F&A rate is administration costs (26%) which effectively results in slightly more than half of the total research rate. The true administrative costs to operate the University exceed the negotiated amount. However, the federal government forces a cap on the administrative component limiting it to the maximum of 26 percent.

[Please Click for Rate Structure](#)

Another common misconception, as related to overhead, is the distribution of earned indirect. Indirect is only distributed once it is earned, after sponsored funds are spent. Once earned, indirect is distributed as defined in Table 2. Ten percent of earned indirect is retained by the Research Division to support the research administration and operations such as the ASPIRES program. Thirteen percent is used by the University to acquire, repair, renovate, or improve buildings or equipment used directly for organized research. Thirty percent of earned indirect is distributed to the state whereby it is returned to the University as part of the annual educational and general funds. The largest portion of distributed indirect goes to the college / department. This distribution gives the receiving college / department discretionary funds to offset costs related to the conduct and enhancement of research and research-related requirements. It is the flexibility of these funds that is so important to our research enterprise. Therefore, it is imperative that the University attempt to collect the maximum indirect allowed. Any waiver or reduction of indirect impacts the colleges and departments the most.

Table 2.
Earned Overhead Distribution

Component	Percentage
Research Division	8.57%
Central Capital Account 1	11.14%
Central Capital Account 2	10%
State of Virginia	30%
College / Department	40.29%