What are Indirect Costs?

Sponsored activities on campus incur two types of cost—direct and indirect. The direct costs are those that can be specifically and easily identified with a particular project or activity and are allowable under the sponsoring organizations guidelines. Indirect costs, according to the federal Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards issued by the Office of Management and Budget (Uniform Guidance), are those costs that are incurred for common or joint objectives, and cannot be easily and specifically identified with a particular sponsored project, an instructional activity, or any institutional activity. These costs are also sometimes called “facilities and administrative costs (F&A)” or “overhead.” Direct costs are costs that can be specifically identified and that directly benefit a sponsored project. These costs could include a technician’s salary, project specific supplies, or a trip to a field site. Indirect costs are general institutional expenditures that cannot be specifically identified with a particular project. Included among these costs are janitorial services, utilities, hazardous waste disposal, clerical salaries, building depreciation, and other categories (see below).

In order to allocate indirect costs both accurately and fairly for the indirect cost proposal, it is first necessary to identify and segregate costs as to either direct or indirect in nature. All costs are recorded in the accounting system and then assigned to an appropriate cost pool. As per UG, the overall objective of the indirect cost allocation process is to distribute the indirect costs to the major functions of the campus (research, instruction, other sponsored activities, and other institutional activities) in proportions consistent with the nature and extent of their use of campus resources.

Indirect costs are recovered through a rate which is charged to sponsored projects. This indirect cost rate is a composite rate applied to sponsored projects as a percentage of the sponsored project’s direct costs to recover the sponsored project’s share of the campus’ indirect costs it consumes. The federally negotiated Indirect Cost Rates for research and other activities are developed by our campus in accordance with the Uniform guidance and are negotiated with the Department of Health and Human Services (DHHS).

UMass’ current rate for externally-funded federal research on campus is 59.5%.

The campus is currently negotiating the federal indirect cost rates with the Department of Health and Human Services (DHHS) for the FY23 rate. The current FY22 on campus rate is 59.5%.
There are six negotiated indirect rates, depending on type of project. For instance, research to be conducted off-campus has a much lower rate because the average off-campus investigator will not use campus lab space, heat, lights, and so on.

What Kinds of expenditures are included in the computations? There are seven classes and several sub-classes of expenditures that go into the computation of a research indirect cost rate, based on the appropriate share for sponsored research. These categories are:

- **General Administration** - the costs incurred for the general executive and administrative functions of the institution. These costs include the President’s Office, Chancellor’s Office, Provost Office, Administrative Systems, Telecommunications, Registrar, Procurement, Accounting, Budget and other Financial Services, Human Resources, Mail, Receiving and Distribution, and other Campus Services. These costs include University central costs.

- **Sponsored Project Administration** - the costs incurred by organizational units that are established primarily to administer and support sponsored projects. These organizational units include Research Administration and Compliance, Vice Chancellor of Research and Engagement, and Controllers Office-Post-Award Accounting.

- **College / Department Administration** - the portion of administrative and supporting services within academic departments and deans offices that support sponsored activity. These costs include salaries of professional, clerical and student staff, related fringe benefits, travel, postage, and other office expenses.

- **Physical Plant** - the costs incurred for the operation, maintenance, and protection of the campus physical plant. These costs include maintenance and repairs (excluding capital improvements), environmental health and safety, facilities planning, custodial, waste handling, grounds services, and transit operations.

- **Utilities** - the cost of fuel commodities used in campus operation. These costs include steam, gas, electricity, etc.

- **Public Safety** - security and Police Department expenses.

- **Library** - the costs of library operations, facilities, books, and materials.

- **Capital Expenditures** - buildings and equipment depreciation.
How does the University deal with agencies that won’t pay our full indirect cost rate?

The University’s policy on this issue is quite clear: We expect that all agencies will pay the appropriate indirect cost rate except if a ceiling, which is applied consistently to all similar recipients, is explicitly state in the agency guidelines. For example, most training grants will only pay 8% of Total Direct Cost (TDC), even though UMass has a much higher negotiated rate. Similarly, USDA has several programs which fall under public laws that restrict allowable indirect cost rates such as 0%, 14% TDC, or 20% TDC, clearly laid out in the agencies’ guidelines, and UMass’ General Operating Fund absorbs the balance of the indirect cost that it will never recover.

In unusual cases where the sponsor does not have a published policy and refuses to pay the established rate for the type of agency or project, further negotiation by university officials is required. This may result in the need to request a variance.

On the Amherst campus the Office of Financial and Cost Analysis, under the direction of Jacqueline Watrous, is responsible for submitting and negotiating the campus’ indirect cost rate.

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