

POLICY

Approved by the President's Council January 17, 2001.

Unanimously approved by the Research Council October 1, 2001.

Purpose: To define special conditions and procedures for exception to recovery of federally negotiated overhead rates.

Effective Date: April 2, 2001

Definitions:

Federally Negotiated Overhead Rate - UMBC periodically negotiates an overhead rate with the Department of Health and Human Services (DHHS) which is applied uniformly to all sponsored research. All proposals, contracts, and grants must include the applicable F&A negotiated rate within the total estimated cost or fixed price. Current rates are available at the Office of Sponsored Programs (OSP).

Modified Total Direct Cost base (MTDC) - Defined in the Rate Agreement. For UMBC, MTDC includes salary/wage costs, including fringe benefits, materials, other direct expenses (such as services), travel, and the first \$25,000 of a subcontract, but excludes capital equipment, tuition remission, scholarships, fellowships, foreign components of a grant or contract, and that part of a subcontract over \$25,000.

Overhead Rates or Facility and Administrative (F&A) Costs - Associated with the expense of doing business and essential to the support and expansion of university activities. For UMBC this means items such as buildings and building maintenance, depreciation, instrumentation, compliance with biohazard safety, disposal of hazardous waste, startup funds for new faculty, veterinary services, library books, departmental administrative and clerical salaries and supplies, local phone calls, individual memberships and subscriptions, summer faculty fellowships, and special research initiative support.

Necessity for Policy: Ideally, the federally negotiated rates will be applied uniformly to all federal and private funding sources. However, the federal government does not **require** that negotiated rates apply to all agencies and agreements but suggests that they **should** apply "...subject to any statutory or administrative limitations..." (Rate Agreement, July 10, 1998). Occasionally, special circumstances apply to a sponsored project that require a reduction in the overhead recovered.

Process Under Which This Policy was Developed: The Office of Sponsored Programs developed this policy to accommodate special circumstances whereby overhead recovery could be reduced and to respond to the federal government

requirement for consistent treatment of sponsored research. OSP solicited comments from the Provost, Vice Presidents, Deans, Chairs, University Counsel and the campus as a whole during a 30-day comment period when the draft was posted on the OSP website.

Special Circumstances for Exception to Federally Negotiated Rates:

1. Limit Imposed by Sponsoring Agency Policy. Some federal, state, and private sponsors impose an F&A cost rate that is below the federally negotiated rate. Many private foundations limit or exclude overhead as a matter of policy. In effect, they are requiring the recipient institution to agree to share in the cost of performing the proposed work, even though this is not stated formally as “cost sharing”. In all such cases, the decision to proceed with a proposal will depend on the non-monetary value of the grant to the institution, traded off against the under-recovery of indirect costs that are truly incurred.
2. Competitive Reduction. Some sponsors may ask for consideration in the form of a lowered indirect cost rate, even though this may not appear in a stated policy. It may be stated or implied by the sponsor that other competitors for the funding are willing to accept a lower rate and that UMBC must also be willing to give up something in this area to remain competitive. In these situations, a strong argument must be advanced by the Chair, Dean, or reporting line authority. The university will base its decision on the indirect cost history with that sponsor, the value of the funding to the institution in non-monetary terms, the demand on campus resources, and the potential for future funding at a higher indirect rate if the proposal should be successful. UMBC may also impose a time limit for the reduced rate that will be reviewed prior to consideration for renewal.
3. Seed Funding. Small, pilot grants may be applied for that are intended to get a new investigator started in a research area or help an established investigator begin working in a new field. It may be in the institution’s best interests to preserve the direct cost expenditures and reduce the recovery of indirect costs. It is expected that such grants will be no longer than one-year duration and will promote future funding that will recover full indirect costs.

Procedure for securing a reduced overhead rate:

When a faculty or staff member feels there is an extraordinary justification to propose an F&A cost rate at less than the University rate in effect at the time, a written waiver must be requested. The waiver must be approved by the Department Chair, respective Dean or direct reporting line authority, and ultimately by OSP **prior to submitting the proposal**. Approval of such a

request will be on a case-by-case basis and will not establish a precedent for future applications. In those cases where a limit is imposed by the sponsoring agency, a copy of their written policy on this issue must accompany the application. In each case stated above, OSP may negotiate with the relevant Department Chairperson, Dean, or direct reporting line authority to establish the terms and conditions of the request. In some instances, OSP may consult senior campus administration. The investigator, department, dean or direct reporting line authority may use their DRIF allocation to cover the difference between the federally negotiated rate and the requested rate.

Rate negotiations with a sponsor will be undertaken by OSP in conjunction with the PI and final authority to accept a lower rate for the university remains with OSP. It is possible that after careful consideration, OSP might recommend that UMBC not accept an award with a reduced or no indirect costs. In those situations where the request for a reduced indirect cost rate must be denied, OSP will explore other options with the investigator and department or unit.

The ability of UMBC to absorb under-recovery of its indirect costs is limited. The actual rate of recovery of F&A costs will be calculated on an annual basis and senior campus administration will determine in advance what can be safely absorbed in any given fiscal year. As part of the UMBC DS-2 Federal status, the F&A cost account will be subject to external audit.

Questions? Call Dr. E. Young, Assistant Vice Provost for Research in the Office of Sponsored Programs at extension 1336 or ey@umbc.edu