



## Indirect Costs (IDC) Primer

- What are Direct Costs and Indirect Costs (IDC)?
- Why is IDC important?
- How is IDC calculated?
- How much IDC Recovery is distributed to Units?
- Carryforward Rules for IDC
- How is IDC Shared among Units?

### What are Direct Costs and Indirect Costs (IDC)?

The **Direct Costs** of a sponsored project are those costs that can be identified specifically to the project with relative ease and a high degree of accuracy. Direct costs can include personnel costs, travel, supplies, etc.

The **Indirect Costs** (IDC, also known as Facilities & Administrative cost/F&A) of a sponsored project are general institution expenditures incurred for common or joint objectives that cannot be identified readily with a particular project. Indirect Costs include operations and maintenance of facilities and infrastructure, utilities, administrative support, information technology infrastructure, etc.

### Why is IDC important?

Sponsored project teams at UGA could not carry out sponsored projects absent the physical environment, information technology infrastructure, library resources, faculty affairs, human resources, general administrative support, and other support provided by the university that enable these activities. The university provides laboratory space; infrastructure like water, gas, and electricity; administrative support, and many other structures, all of which cost money, but cannot easily and with a high degree of accuracy be associated with any specific project.



IDC are real costs associated with the work of a sponsored project. Generally, sponsors will contribute funds, in addition to a project's Direct Costs, to cover these additional costs and reimburse the university for the real IDC associated with providing the necessary facilities and administration required for a sponsored project.

### **How is IDC calculated?**

The amount of IDC paid by a sponsor for a particular project is generally calculated as a percentage of Modified Total Direct Costs (MTDC, which often excludes certain Direct Costs such as equipment, capital expenditures, patient care, rental costs, tuition remission, scholarships and fellowships (student aid), participant support costs, and the portion of each subaward in excess of \$25,000). This percentage is the **IDC Rate**, which varies depending on the project type, location of the project activity, and the sponsor type. Every few years, UGA undergoes a rigorous accounting and review with government auditors, who use the cost principles of the [Uniform Guidance](#) to establish UGA's federally-negotiated rates. In some cases, a sponsor may cap the IDC Rate or the total IDC available for a particular project. Less commonly, a sponsor may have a policy which prohibits IDC reimbursement. The example below shows the Cost Principle Components of UGA's main Research IDC Rate:

#### **Example: Research Indirect Cost Rate of 51% by Cost Principle Components**

2.5%	Building and Improvement Depreciation
5.0%	Equipment Depreciation
1.0%	Building Debt Interest
15.5%	Operations and Maintenance (includes Utilities)
1.0%	Library
<u>26.0%</u>	<u>Administrative (Capped at 26% by Federal Government)</u>
<b>51.0%</b>	<b>Research IDC Rate</b>

Note that the Administrative component of an IDC Rate includes general administration, sponsored project administration, and departmental administration.

## How much IDC Recovery is distributed to Units?

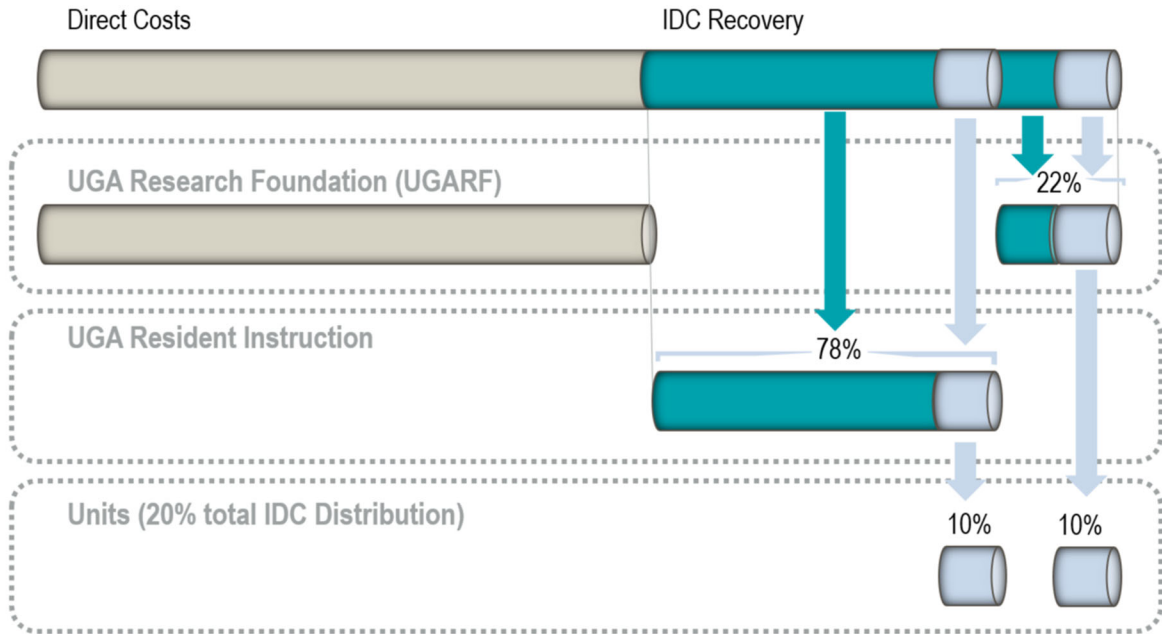
The IDC dollars actually received by a sponsor represent the **IDC Recovery** on the project. IDC Recovery is intended to reimburse the university for the real expenses associated with a sponsored project incurred across a variety of university units and functions. IDC Recovery is meant to recover these expenses when they do not qualify as Direct Costs. IDC are incurred in many units and at many levels of university operations (facilities, procurement, SPA, and EITS offer a few examples). UGA has developed a system for distributing the IDC Recovery across the institution.

Generally, approximately 80% of all IDC Recovery is distributed to institutional-level budgets, while approximately 20% is distributed to the financial department(s) ("**Units**") per the IDC distribution associated with the project and identified in the Grants Portal. These financial departments may be at the department, college, center, or institute level. This 20% component of the IDC Recovery is intended to help offset the departmental administration costs incurred by Units when managing grants and is an important part of Unit operating budgets. An additional 10% of IDC Recovery is allocated annually from UGA's Resident Instruction budget (part of the 80% mentioned above) to the Units for new faculty startup packages.

The figures below show the differences in the distribution of IDC Recovery depending on whether a project was awarded to the University of Georgia Research Foundation (UGARF) or UGA. UGARF is an independent organization that helps support the UGA research enterprise, and most sponsored projects are awarded to UGARF.

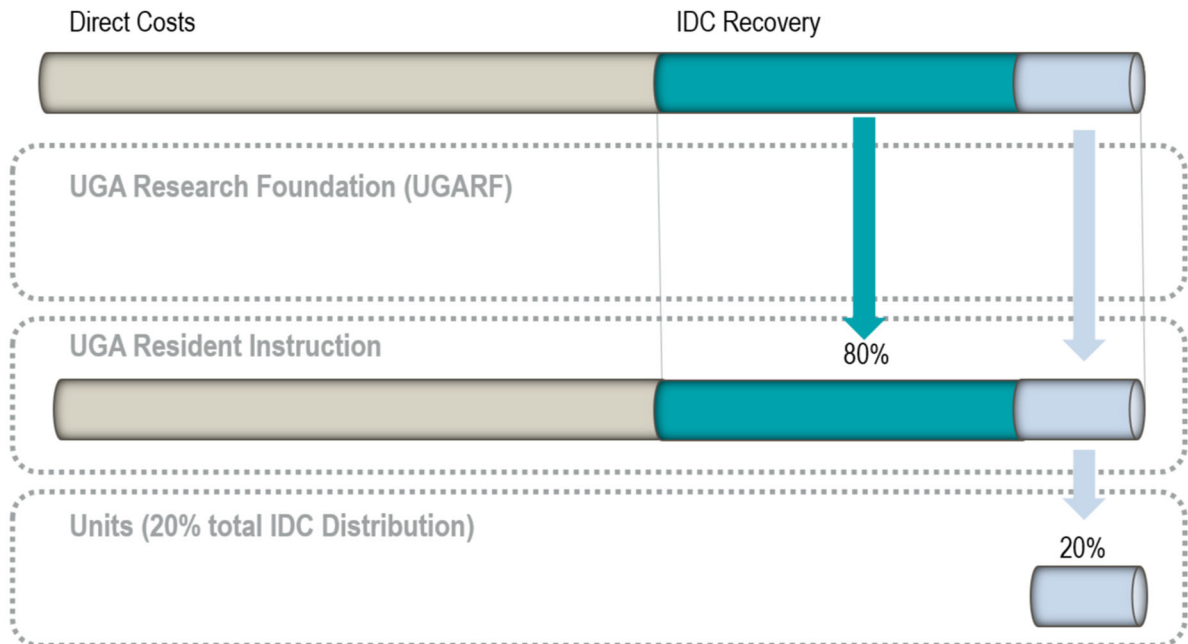


Figure 1 (RI-Unit | UGARF): Disposition of IDC Recovery generated from sponsored projects and awarded to UGARF.



As shown above, for sponsored projects awarded to UGARF, approximately 78% of IDC Recovery is distributed to the UGA Resident Instruction budget (UGA’s major general operating budget), while about 22% is distributed to UGARF’s budget (Figure 1). From each of these budgets, 10% of the original total IDC Recovery is distributed to the Units.

**Figure 2 (RI-Unit | UGA):** Disposition of IDC Recovery generated from sponsored projects and awarded to UGA.



IDC Recovery is slightly different for sponsored projects awarded to UGA based on sponsor requirements (e.g. the opportunity is limited to land grant institutions or public institutions, etc.). In these cases, UGARF is not involved, and IDC Recovery is distributed with 80% to the UGA Resident Instruction budget and 20% to the Units.

Not depicted in the figures above, note that an additional 10% of IDC Recovery is allocated annually from UGA’s Resident Instruction budget to the Units to help support faculty startup packages.



The following table compares the IDC Recovery distributions for projects awarded to UGARF to the IDC Recovery distributions for projects awarded to UGA.

	IDC DISTRIBUTION FOR AWARDS TO UGARF	IDC DISTRIBUTION FOR AWARDS TO UGA
<b>UGARF</b>	<b>11.74%</b>	<b>0%</b>
<b>UGA RESIDENT INSTRUCTION/ GENERAL FUND</b>	<b>68.26%</b>	<b>80%</b>
<b>UNITS</b>	<b>20%</b> <b>(10% from UGA and 10% from UGARF)</b>	<b>20%</b>

The example below provides the breakdown of direct costs and indirect costs including the IDC Distribution for a sample NSF award.

**Example: Distribution of Direct and Indirect Costs from a Sample NSF Award with UGARF as the Award Recipient**

\$180,000 Project Budget (Total Direct and Indirect Costs), with a 50% IDC Rate

	<b>Budget Category</b>
\$75,000	Salary/Benefits
\$25,000	Operating Expenses
<i>\$10,000</i>	<i>Student Aid (not subject to IDC)</i>
<i>\$20,000</i>	<i>Equipment (not subject to IDC)</i>
<b>\$130,000</b>	<b>Total Direct Costs</b>
<b>Computing Total IDC</b>	
\$75,000	Salary/Benefits
<u>\$25,000</u>	Operating Expenses
\$100,000	<b>Total Direct Costs subject to IDC</b>
<u>50%</u>	IDC Rate
<b>\$50,000</b>	<b>Total Indirect Costs</b>
<b>Distribution of Total IDC</b>	
\$5,870	11.74% UGARF
\$34,130	68.26% UGA Resident Instruction/General Fund
<u>\$10,000</u>	<u>20.00%</u> Units (10% from UGA and 10% from UGARF)
<b>\$50,000</b>	<b>100.00% Total IDC</b>

An additional 10% of UGA Resident Instruction IDC funds are allocated to Units annually to support faculty startup.



## **Carryforward Rules for IDC Funds**

For all sponsored projects, 20% of the IDC Recovery is distributed to the Units from UGA and UGARF. An additional 10% of IDC Recovery is allocated annually from UGA's Resident Instruction budget to the Units for new faculty startup packages.

IDC Distribution from UGARF (see Figure 1) can be carried over from one fiscal year to the next, a flexibility that Units value. IDC Distribution from UGA (See Figures 1 and 2) can be carried over as granted by state legislation but requires a spending plan or justification. On an annual basis, each Unit must analyze available funds in IDC carryforward and develop a spending plan showing how they will use the carryforward strategically to meet institutional needs. On a regular basis during the year, usually quarterly, each Unit must provide a report on the use of carryforward funds. These updates are summarized in a report that is provided to the University System of Georgia administrative offices and the Governor's Office of Planning and Budget to demonstrate the strategic nature and usage of these funds and facilitate the State's support for continuing the University's carryforward authorization. These reporting requirements assist Units with managing carryforward balances for strategic purposes and avoid accumulating excess carry forward funds.

## **How is IDC shared among Units determined?**

For projects involving a single investigator with an appointment to a single department, the Unit is straightforward – the principal investigator's department will receive all the IDC Distribution. However, in an increasing number of projects, the principal investigator may have an appointment in more than one department or an affiliation with a center or institute in addition to a traditional academic appointment. In addition, with the university's important emphasis on interdisciplinarity, many projects are collaborations among several investigators who may each be a member of multiple departments, centers, and institutes. UGA has *not* established a policy requiring how IDC must be shared among these Units, but forms in the Grants Portal allow investigators to indicate how much IDC will be distributed to their associated Units using



financial department IDs. These IDC Distributions must be approved by appropriate deans, heads, and/or directors of the Units involved and should be discussed with the appropriate leaders well in advance of proposal submission. These approvals are made electronically for each proposal in the Grants Portal.

In 2008, the Task Force on Sharing Facilities & Administrative Income distributed to Units issued a [report](#) that emphasized the need for collaborating Units to agree upon the sharing of IDC based on the Direct Costs and Indirect Costs incurred by each Unit in conducting the sponsored project. The task force developed a worksheet, which is contained in its report, that provides a cost accounting framework for a fair sharing of IDC Distribution. The principles in the report form a set of guidelines that can help Units develop their sharing arrangements.

## **B Unit IDC**

The state of Georgia's budget includes separate line items for certain programs that conduct specific activities. The University of Georgia has some of these specific programs, which are part of the state's B budget line items. Those UGA activities are based upon location and project type, and are commonly referred to as B units. UGA's B units are:

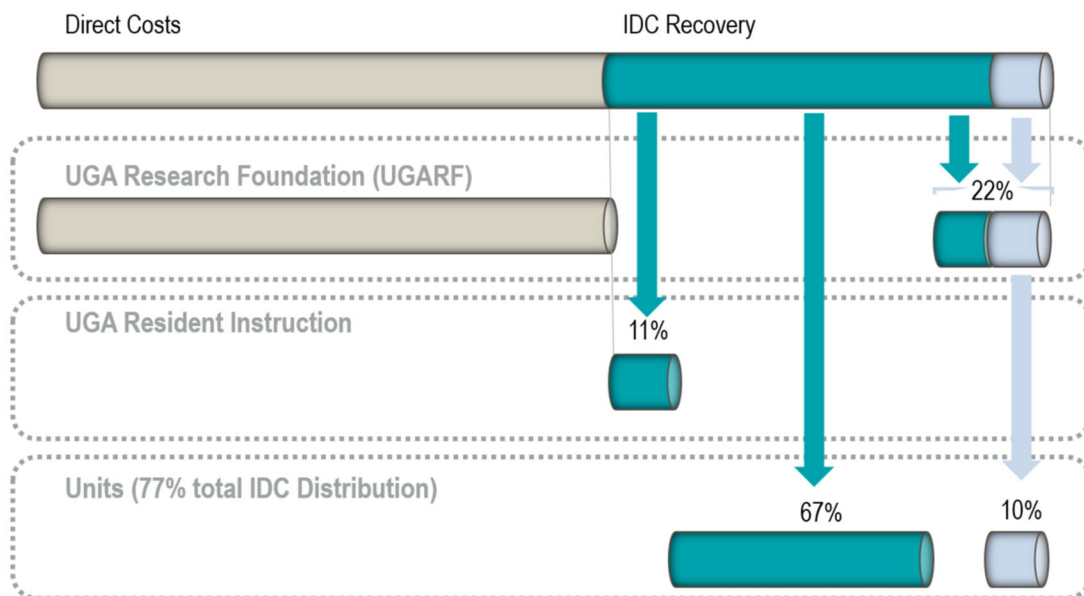
- Athens and Tifton Veterinary Diagnostic Labs
- Agricultural Experiment Station
- Cooperative Extension Service
- Forestry Cooperative Extension Service
- Forestry Research
- Marine Resources Extension Service
- Marine Institute
- Skidaway Institute of Oceanography
- Veterinary Medicine Experiment Station
- Veterinary Medicine Teaching Hospital



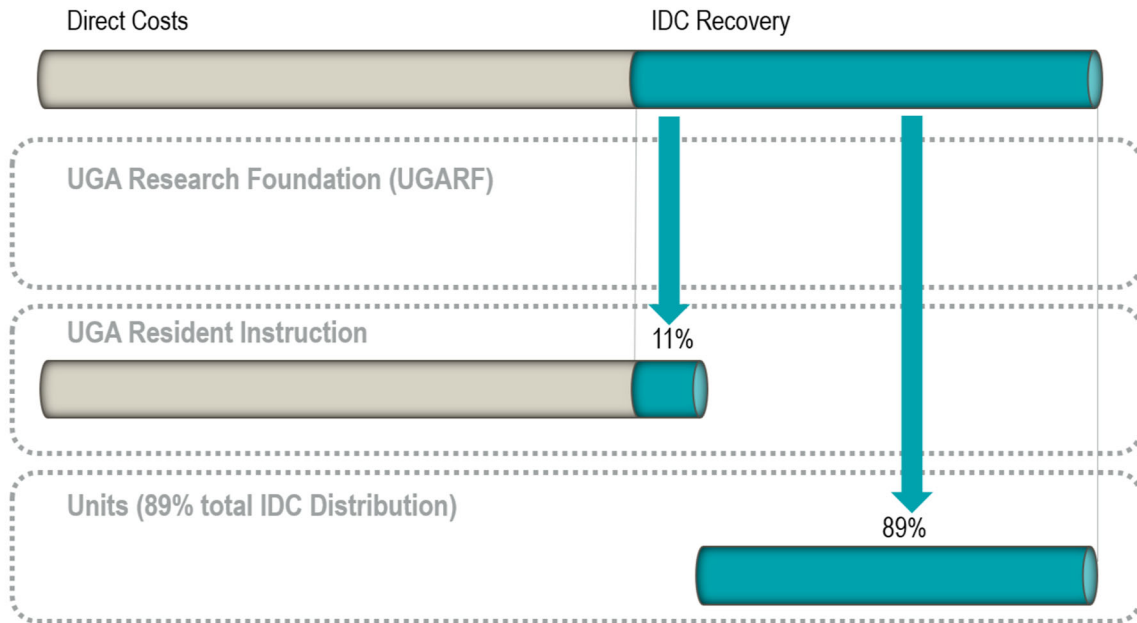
B units that conduct sponsored activities off the main campus have a separate IDC Rate based on the location where the majority of the work is completed and the project type. B unit locations have unique facilities costs that are used to develop their specific IDC Rate. The predominant location and the type of sponsored activity determines the IDC Rate and the IDC Distribution for B units. Since the IDC Recovery from these sponsored projects relates to the B unit’s specific location and project type, more of the IDC Recovery is distributed to the B unit.

For a UGARF sponsored project (Figure 3), the IDC Distribution on a B unit project is 67.26% to the B unit, 21.74% to UGARF, and 11% to UGA for partial recovery of general administrative costs. Similar to the UGARF IDC Distribution for resident instruction units (non B units), UGARF provides 10% to the B unit for UGARF sponsored projects, bringing the total to the B unit to 77.26%. For a UGA sponsored project (Figure 4), the IDC Distribution is 89% to the B unit and 11% to UGA. The B unit can share up to 20% of its IDC Distribution with other units on UGA sponsored projects and up to 10% of its IDC Distribution on UGARF sponsored projects.

**Figure 3 (B-Unit | UGARF):** Disposition of IDC Recovery generated from sponsored projects and awarded to UGARF.



**Figure 4 (B-Unit | UGA):** Disposition of IDC Recovery generated from sponsored projects and awarded to UGA.



The following table compares the IDC Recovery distributions for B unit projects awarded to UGARF to the IDC Recovery distributions for B unit projects awarded to UGA.

	IDC DISTRIBUTION FOR AWARDS TO UGARF	IDC DISTRIBUTION FOR AWARDS TO UGA
<b>UGARF</b>	<b>11.74%</b>	<b>0%</b>
<b>UGA RESIDENT INSTRUCTION/GENERAL FUND</b>	<b>11%</b>	<b>11%</b>
<b>B BUDGET (B UNIT/UNIT)</b>	<b>77.26% (67.26% from UGA &amp; 10% from UGARF)</b>	<b>89%</b>

The following example provides the breakdown of Direct Costs and Indirect Costs including the distribution of IDC for a project performed by the Agricultural Experiment Station (AES), which is a B unit, and awarded to UGARF.



**Example: Distribution of Direct and Indirect Costs from a Sample USDA Award to a B Unit with UGARF as the Award Recipient**

\$172,000 Project Budget (Total Direct and Indirect Costs) with 42% IDC Rate)

	<b>Budget Category</b>
\$75,000	Salary/Benefits
\$25,000	Operating Expenses
<i>\$10,000</i>	<i>Student Aid (not subject to IDC)</i>
<i>\$20,000</i>	<i>Equipment (not subject to IDC)</i>
<b>\$130,000</b>	<b>Total Direct Costs</b>

**Computing Total IDC**

\$75,000	Salary/Benefits
<u>\$25,000</u>	Operating Expenses
\$100,000	<b>Total Direct Costs subject to IDC</b>
42%	IDC Rate
<u>\$42,000</u>	<b>Total Indirect Costs</b>

**Distribution of Total IDC**

\$4,931	11.74%	UGARF
\$4,620	11.00%	UGA Resident Instruction/General Fund
<u>\$32,449</u>	<u>77.26%</u>	Units (AES) (67.26% from UGA and 10% from UGARF)
<b>\$42,000</b>	<b>100.00%</b>	<b>Total IDC</b>