

Office of Sponsored Programs
Procedure OSP 30008 Facilities and Administrative
Overhead Rate Distribution



Revision Date: 6/01/2016

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1. Introduction

Responsible Officials: Senior Director of Post-Award

Effective Date: June 30, 2008

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IMPORTANT: For federal awards/subawards issued to Virginia Tech with a start date prior to December 26, 2014, 2 CFR Part 215 (OMB Circular A-110) and 2 CFR, Part 220 (OMB Circular A-21) apply. For all new funds (new awards and new monies, such as continuation awards, supplements, etc. received for existing awards) with a start date on or after December 26, 2014, these new funds are subject to 2 CFR Part 200 (commonly referred to as Uniform Guidance—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) but hereinafter referred to as “2 CFR Part 200”).

Due to the change in federal regulations the language in this procedure specific to the new regulations, 2 CFR Part 200, is highlighted in red font below.

2. Scope

This procedure outlines the methodology of Facilities and Administrative (F&A) rate distribution within Virginia Tech. The procedure applies to all principal investigators, staff, and university departments and offices that are involved in the administration or use of sponsored award funds receiving F&A overhead distributions.

3. Procedure Statement

The Office of Sponsored Programs (OSP) functions as the steward of Virginia Tech’s research portfolio and is responsible for ensuring that all research proposals and projects comply with university, federal, and sponsor regulations, policies, and procedures. This procedure explains and establishes the process for distributing overhead to sponsored awards.

4. Reason for the Procedure

The university charges sponsors a percentage of costs that is over and above the direct project costs in order to recover the infrastructure expenses of running its research enterprise. These costs are not readily identifiable with a specific project, program, or activity but are necessary for the general operation of the university’s research program. These are costs of operating the facilities and may include the costs of maintenance, depreciation, general and departmental administration, utilities, janitorial services, accounting and purchasing services, research and grants administration, library operations, etc. This rate was originally referred to as the “overhead rate” and is commonly called that today. The term “indirect costs” has been used for much of the last decade. Today, the official government terminology is Facilities and Administrative rate or F&A.

As prescribed by [Appendix III to 2 CFR Part 200](#)—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs) the [Virginia Tech Controller’s Office](#) negotiates an F&A rate and fringe benefit rates through the university’s cognizant federal agency, the [Office of Naval Research](#) (ONR). This agency handles award administration, F&A rate negotiations, business system reviews and quality assurance. Their scope extends to the administration of contracts and grants (with educational and nonprofit institutions) issued by ONR, other Navy, Department of Defense, Army, Air Force, NASA and other federal agencies. Program and related audits performed for the cognizant agency, ONR, are handled through this address and representative:

Address:

Office of Naval Research
Indirect Cost Branch (BD0242)
875 North Randolph St., Rm 373
Arlington, VA 22203-1995

ONR Representative:

See current rate agreement, or contact the Controller’s Office for support.

The approved F&A rates for Virginia Tech resulting from the process outlined above must be accepted by the federal agencies granting sponsored awards to the university unless specific program regulations restrict the recovery rate or are otherwise modified, as outlined in [2 CFR Part 220.102](#). Copies of the signed current and archived rate agreements may be found on the [OSP website](#).

The university is dependent upon the recovery of F&A costs in order to maintain the infrastructure necessary to support sponsored activities. Faculty, staff, and students involved in research and sponsored programs experience the benefits of F&A cost recovery every day when they enter a building; turn on the lights; consult with a research assistant; use the telephone, internet or the libraries; or receive assistance from research administration professionals when writing proposals or in managing grants and contracts just to name a few examples.

It is the practice of Virginia Tech to charge all awards, grants, contracts and other sponsored agreements the allowable federally negotiated [F&A rate](#), if allowed by the sponsor. Certain agencies, foundations, and other sponsors have firm policies that cap the F&A rate. These capped rates are generally acceptable if the sponsor is not a commercial entity and their policy is well documented and consistently applied. This rate must be part of the proposal for the award and included in the applicable budgets submitted for the award and approved by the Department Head.

PIs are not authorized to negotiate reduced F&A rates with a sponsor or to submit proposals that do not include the applicable F&A rate as part of the budget. Rarely, waivers to the federally-negotiated or other maximum allowable rate are necessary or prudent. In those cases, a waiver approval through OSP is needed (see [OSP 20001 Facilities and Administrative Waiver or Reduction](#)).

5. Definitions

Award – A legal instrument of financial assistance between a sponsoring/awarding agency or organization (including pass through entities) and a non-Federal entity that provides support or stimulation to accomplish a public purpose. Financial assistance is provided through granting of an award and is not considered a purchasing or procurement activity. A state or federal government is not buying something from the university when it gives the university an award; rather it is providing financial assistance necessary to help the university fulfill its own mission or to stimulate new activities at the university. An award is always made to accomplish a public purpose, and can also be referred to as a grant agreement or cooperative agreement.

Cognizant Agency (ONR) – The Cognizant Agency for Virginia Tech is the Office of Naval Research (ONR). Cognizant federal agency is defined by [48 CFR 2.101](#) (see cognizant federal agency) as “the federal agency that, on behalf of all federal agencies, is responsible for establishing final indirect cost rates and forward pricing rates, if applicable, and administering cost accounting standards for all contracts in a business unit.”

Facilities and Administrative Indirect or Overhead Costs – the federal government refers officially to indirect costs as facilities and administrative (F&A) costs, sometimes simply called "overhead" costs. F&A costs are costs that are not readily identifiable with individual projects or, those that are incurred for common or joint objectives. In other words, indirect costs cannot be specifically attributed to an individual project. For example, it is difficult to determine how much of a PI's lab space is used for a specific research project when multiple projects are being conducted in the same lab. We know the project benefits from the lab space, but it is impractical to accurately calculate the cost associated with that benefit. Accordingly, F&A costs are estimated for each project using a formula that compares all Institutional project expenditures against all the Institutional facility and administrative costs necessary to support all projects. They include such categories as library operations, utility costs, depreciation of buildings and equipment, operations and maintenance costs, grant and contract administration and accounting, and general administrative expenses for central offices.

Off Campus, Adjacent – An Off Campus Adjacent facility or location is a SPONSOR funded facility or location < 50 miles of Blacksburg, Virginia.

Off Campus, Remote – An Off Campus Remote facility or location is a SPONSOR funded facility or location \geq 50 miles of Blacksburg, Virginia.

On Campus – An On Campus location is a Virginia Tech funded facility or location.

Principal Investigator (PI) – The Principal Investigator (PI) is the primary individual in charge of an award, grant, contract, cooperative agreement, or other externally sponsored activity. The term "project director" is commonly used in relation to education and public service projects, while the term "principal investigator" is commonly used for research projects. Since the terms are generally used interchangeably by OSP and sponsors, we will use the term "PI."

In many cases, there are multiple investigators included in applications for external funding. However, federal agencies and the university require that one individual be designated as the principal investigator since both the sponsor and the university must have one individual designated as ultimately responsible for the conduct of the project. If co-investigators are named on an application without identifying an individual as the PI, the person listed first is considered the PI by the university and the federal agency.

6. F&A Rate Structure

The structure of the F&A proposal requires institutions (Virginia Tech) to negotiate different rate structures based upon location and the funding sponsor of the location where the award will be executed or the research conducted. Currently the federal government imposes a 26% cap (see [Appendix III to 2 CFR Part 200.III.C.8.a](#)) upon administrative costs included in the negotiation for the F&A rate (An exception is DOD contracts awarded or issued on or after November 30, 1993 in accordance with and under the authority of [DFARS 231.303\(1\)](#) under which administration is not capped). At Virginia Tech, true administrative costs to operate the university do exceed this 26% cap and those costs over the cap are excluded from the F&A rate.

The [current F&A rate agreement](#) breaks down the F&A rate into its component parts for both capped and uncapped rates. It includes On Campus, Off Campus Adjacent and Off Campus Remote notations. Please see the [definitions section](#) above for an explanation of the various campus notations.

To view the component parts of the F&A structure for Organized Research, both capped and uncapped, please refer to page 4 of the [current F&A rate agreement](#). To view the component parts of the F&A structure for Instruction, Other Sponsored Activities, and the Agriculture Experiment Stations, please refer to page 5 of the [current F&A rate agreement](#).

OSP has developed a chart that simplifies the various F&A rates per activity and location for Virginia Tech. To see the current F&A rates by activity and location please refer to the [F&A Rate Chart](#).

7. How Overhead or Earned Indirect is Calculated

Overhead or Earned Indirect (overhead) is only distributed after it is earned by expenditures posting to sponsored funds. This distribution of overhead gives the receiving college/department discretionary funds to offset costs related to the conduct and enhancement of research and research

related activities. It is this flexibility to use these funds that is so important to Virginia Tech’s research enterprise. This is a key reason to collect the maximum allowable indirect cost from federal agencies (for a discussion on this see [OSP 20001 Facilities and Administrative Waiver or Reduction](#)).

These expenditures post in Banner and are visible by fund on the Banner screen FRIGITD. Posting of overhead to the sponsored funds is calculated and performed on the last working day of each month. The General Accounting section of the Controller’s Office executes the month end overhead program (FZPMEOH). This program uses three major Banner fund attributes found on the Banner screen FZMFNDA to perform the calculation of the overhead to charge sponsored program funds.

- Overhead Rate – this code specifies the overhead rate or percentage that should be applied to the fund expenditures to calculate the indirect cost.
- Overhead Basis – this code specifies the various bases that can be used to calculate overhead (modified total direct costs, total direct costs, no indirect charged).
- Overhead Status – this code indicates the type of overhead rate allowed on this fund (full rate, partial rate, manual calculation, etc.)

The sponsored funds are charged overhead under the OHxxx account codes (OH120, OH130, OH140, OH150, OH160 & OH170). Offsetting credits are recorded in the same object codes in the overhead clearing funds (see [Standard Overhead Distribution chart](#) below for a discussion of the mechanics associated with this fund/account activity).

Virginia Tech uses two methods to calculate overhead

- a. Modified Total Direct Costs (MTDC)
 1. Excludes account code 1244D (conference services)
 2. Excludes account codes 14210 through 14260 (scholarships)
 - a. Account codes 14130 (honorariums) and 14137 (human subjects) roll up under awards on the summary account statement and indirect is assessed on both account codes. Use the Banner screen FRIGITD in concert with the summary account statement.
 3. Excludes account codes 15210 – 15270 and 15310 – 15370 (rental costs)
 4. Excludes amounts which exceed \$25,000 on each 19xxx and 2xxxx object code (subawards)
 5. Excludes 21000 – 21990 (site improvements, etc.)
 6. Excludes 22000 – 22990 (equipment)
 7. Excludes 23000 – 23990 (capital outlay constructions and renovations)
- b. Total Direct Costs (TDC) – Indirect cost is taken on every expenditure.

Account code exclusions are housed on FTMBASI screen in Banner. Click on “Basis Definition Code” to select the overheard basis, then perform a next block function to see the exclusion.

Overhead distributions varying from the State, Central Capital, and Capital 2 distributions require a waiver and must receive special approvals. For information about this approval process see [OSP 20001 Facilities and Administrative Waiver or Reduction](#) procedure.

8. Standard Overhead Distribution for Virginia Tech

This distribution is the most common overhead distribution used at Virginia Tech. It applies to the various colleges and departments. Some institutes have special overhead distribution agreements, a discussion of those applications appears in subsequent sections.

Waivers to the overhead distribution must be approved by various university officials, see [OSP 20001 Facilities and Administrative Waiver or Reduction](#) for a discussion of the process and required approvals. Waivers are rarely performed and only under special circumstances as described. A waiver should not be taken lightly as it has a direct impact on the funding for the research enterprise of the university.

Standard Overhead Distribution		
Component	Description	Percentage
Commonwealth of Virginia (OH120)	Distributed to the state whereby it is returned to the university as part of the annual Educational and General Funds allocation.	30.00%
College/Department (OH140)	The largest portion of overhead distribution goes to the college. OSP nor the Office of the Vice President for Research and Innovation (OVPRI) has control regarding the amount distributed to PIs/departments by the various colleges. This distribution is an internal matter and should be discussed with the college dean or their designee for clarification.	40.29%
Central Capital Account (OH150)	Used by the university to acquire, repair, renovate, or improve buildings or equipment used directly for organized research.	11.14%
Capital 2 (OH170)	Used to pay for the construction of new research space.	10.00%
Research Division-OVPRI (OH130)	Supports research administration and operations. Distribution and use of these funds is directly under the responsibility of the Vice President for Research and Innovation.	8.57%

9. National Capital Region (NCR) Overhead Distribution

The PI/department will indicate the project is being conducted in the NCR on the Sponsored Programs Approval form. For Banner to distribute overhead to NCR accounts the overhead status selection on FZMFNDA must have “NCR” in the description. Also, on FRAGRNT the literal SI and value NCR attribute must be entered under the user defined tab.

NCR Overhead Distribution		
Component	Description	Percentage
Commonwealth of Virginia - NCR (OH121)	Distributed to the state whereby it is returned to the university as part of the annual educational and general funds. This code ensures the NCR receives the appropriate allocation for projects conducted in the NCR.	30.00%
Research Division-OVPRI (OH130)	Supports research administration and operations. Distribution and use of these funds is directly under the responsibility of the Vice President for Research and Innovation.	8.57%
College/Department (OH140)	The largest portion of distributed indirect goes to the college. The college distributes to department. OSP nor OVPRI has control regarding the amount distributed to PIs/departments.	40.29%
Central Capital Account - NCR (OH151)	Used by the university to acquire, repair, renovate, or improve buildings or equipment located in the NCR used directly for organized research.	11.14%
Capital 2 - NCR (OH171)	Used to pay for the construction of new research space at the NCR.	10.00%

10. Biocomplexity Institute Overhead Distribution

Biocomplexity Institute Overhead Distribution		
Component	Description	Percentage
Indirect Costs - Bioinformatics (OH160)	Standard overhead distribution returns funds to the state and university to pay for fringe benefits and building construction and maintenance. One hundred percent of overhead is returned to the Biocomplexity Institute as the institute pays the mortgage on its buildings and pays its fringe benefits for the unit's state employees. (Other university departments following the standard distribution receive state funding to pay for fringe benefits and building construction and maintenance.)	100.00%

11. Center for Advanced Engineering Research (CAER) Distribution

The CAER is a Region 2000 initiative to develop an industry focused regional research and development center that drives the development of innovative products and processes by providing local access to university and federal research and inventions. The CAER is dedicated to the creation of an industry based research hub in Region 2000 that will bring together private and public money, talent and resources to foster knowledge creation, facilitate technology transfer and improve the scientific and engineering workforce to benefit local industry.

When CAER is the sponsor, the CAER overhead status 17 must be selected on the Banner screen FZMFNDA. This allows Banner to automatically post 70% of the overhead to CAER and 30% of the overhead to the State.

CAER Overhead Distribution		
Component	Description	Percentage
Commonwealth of Virginia (OH120)	Distributed to the state whereby it is returned to the university as part of the annual educational and general funds.	30.00%
Collaborative agreement – CAER (OH161)	Distributed to CAER	70.00%

12. Institute for Advanced Learning and Research (IALR) Distribution

When a PI is conducting work at IALR in Danville, VA, they must indicate the percentage of work expected to be completed at IALR in the Summit system when submitting the proposal. The percentage work completed at IALR will be excluded from the standard overhead distribution.

When the IALR is the sponsor, an IALR overhead status code (codes 18-27) needs to be set on the Banner screen FZMFNDA. Banner will automatically post the overhead to the correct accounts.

IALR Overhead Distribution		
Component	Description	Percentage
Commonwealth of Virginia (OH120)	Distributed to the state whereby it is returned to the university as part of the annual educational and general funds.	30.00% after IALR portion
OVPRI (OH130)	Supports research administration and operations. Distribution and use of these funds is directly under the responsibility of the Vice President for Research and Innovation.	8.57% after IALR portion
College/Department (OH140)	The largest portion of distributed indirect goes to the college. The college distributes to department. OSP nor OVPRI has control or knowledge regarding the amount distributed to PIs/departments.	40.29% after IALR portion
Central Capital Account (OH150)	Used by the university to acquire, repair, renovate, or improve buildings or equipment used directly for organized research.	11.14% after IALR portion
Collaborative agreement – IALR (OH162)	Banner programs take the percentage of work completed at IALR and distribute the percentage of indirect each month to OH162. The remaining balance of indirect for that month follows the distribution for the remaining accounts.	Indicated in Summit when submitting Proposal
Capital 2 (OH170)	Used to pay for the construction of new research space.	10.00% after IALR

For example, if 60% of the work was completed at IALR and the overhead for that month was \$100.00. The split would be as follows:

Banner first calculates $\$100.00 * 0.6 = \60.00 which goes to OH162.

The remaining balance is \$40.00 and distributed according to the usual standard distribution.

IALR Overhead Distribution		
Account Code & Description	Calculation	Amount
OH120 – State	\$ 40.00 * 0.3000	\$12.00
OH130 – OVPRI	\$ 40.00 * 0.0858	\$ 3.43
OH140 – College/Department	\$ 40.00 * 0.4029	\$16.12
OH150 – Central capital	\$ 40.00 * 0.1114	\$ 4.45
OH162 - Collaborative agreement – IALR	\$100.00 * 0.600	\$60.00
OH170 – Capital 2	\$ 40.00 - 0.1000	\$ 4.00

13. Virginia Tech Carilion Research Institute (VTCRI) Distribution

VTCRI Overhead Distribution		
Component	Description	Percentage
Commonwealth of Virginia (OH120)	Distributed to the state whereby it is returned to the university as part of the annual educational and general funds.	30.00%
Collaborative agreement – VTCRI (OH163)	The university allocates 70.00% of the overhead generated by VTCRI extramural funding to VTCRI.	70.00%

14. Virginia Tech Transportation Institute (VTTI) Distribution

VTTI Overhead Distribution		
Component	Description	Percentage
Commonwealth of Virginia (OH120)	Distributed to the state whereby it is returned to the university as part of the annual educational and general funds.	30.00%
Collaborative agreement – VTTI (OH165)	Distributed to VTTI	60.00%
Central Capital Account (OH150)	Used by the university to acquire, repair, renovate, or improve buildings or equipment used directly for organized research.	2.57%
Capital 2 (OH170)	Used to pay for the construction of new research space.	6.00%
Research Division-OVPRI (OH130)	Supports research administration and operations. Distribution and use of these funds is directly under the responsibility of the Vice President for Research and Innovation.	1.43%

15. Waived college and/or OVPRI Portion Overhead Distribution

The college and/or OVPRI may waive their portion of the returned overhead distribution as outlined in [OSP 20001 Facilities and Administrative Waiver or Reduction](#). When this occurs, the percentage charged must be adjusted. When the overhead status codes referenced below are on the Banner screen, FZMFNDA, overhead will not be generated for the waived portion.

Overhead Status on FZMFNDA	Description
04	Waive all but State percentage & Capital percentage
05	Waive college percentage
06	Waive administrative percentage (OVPRI)

16. References

- [2 CFR Part 200](#), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)
- [48 CFR 2.101](#), Title 48: Federal Acquisition Regulations System (defines cognizant agency)
- [OSP 10007](#), Membership Fee Supported and Other Affiliated Programs
- [OSP 20001](#), Facilities and Administrative Waiver or Reduction
- Virginia Tech’s Facilities and Administrative Rates: [Office of Sponsored Programs](#) or [University Controller’s Office](#)
- Virginia’s [CAPP Manual Topic Number 20705](#): Indirect Costs Recovery under General Exemption, Waiver
- Appropriation According to the Appropriation Act, [Section 4-2.03c](#)

17. Contacts

- **Senior Director of Post Award**
Office of Sponsored Programs
North End Center, Suite 4200
300 Turner Street NW
Blacksburg, VA 24061
540.231.9372
- **Assistant Vice President for Sponsored Programs**
540.231.5281

18. Roles and Responsibilities

- **Principal Investigators (PIs):**
 - Contact OSP Pre Award Associate when negotiating proposals that may require an F&A rate waiver as soon as possible.
 - **Office of Sponsored Programs**
 - Advise PIs on F&A waiver process.
 - Once received, forward F&A waivers to the Assistant Vice President of Sponsored Programs (or designee).
 - Maintain appropriate files and documentation in support of negotiated awards and agreements.
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19. Dissemination

This procedure may be posted on a Virginia Tech internet accessible site. Open public dissemination of this procedure is allowed.

20. Approval and Revisions

This procedure was originally approved by the Assistant Vice President for Office of Sponsored Programs Administration, March 9, 2009.

This revision approved June 1, 2016 by the Assistant Vice President for Sponsored Programs. This major revision updates the formatting of the procedure, brings the procedure into compliance with [2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards \(Uniform Guidance\)](#) and other edits for clarity and title changes.

The official version of this information will only be maintained in an on-line web format.

Any and all printed copies of this material are dated as of the print date.

Please make certain to review the material on-line prior to placing reliance on a dated printed version.
