Indirect Cost Rates
Frequently Asked Questions

FAQs ON PROPOSALS

1. What indirect cost rate should be used on a proposal?

   It is university policy to recover the full indirect cost rate allowed on sponsored project agreements.

   Under the Office of Management and Budget (OMB) 2 CFR 200 Uniform Guidance (UG), unless the indirect cost rate is limited by statute, regulation or approved by the federal awarding agency head and communicated to the OMB, proposal budgets shall provide for full recovery of indirect costs via the most current rate identified under the current College and Universities Rate Agreement between the university and the US Department of Health and Human Services Cost Allocation Services (US DHHS CAS). The current rate agreement for the university is available on the Office of Research Service (ORS) website under Rates/Indirect Cost Rates (http://www.ors.hawaii.edu/index.php/apply/budget‐development/indirect‐costs).

2. What if the sponsor has limitations on the indirect cost that can be charged?

   If the full federal negotiated indirect cost rate cannot be recovered, it would be considered either a Sponsor Cap or Waiver.

   Sponsor Cap

   Federal awards, including federal pass-through awards

   For federally funded awards, if the indirect rate limitation is due to statute, regulation or approved by the federal awarding agency head and communicated to the OMB, the reduced rated would be considered a sponsor cap.

   Non-federal awards

   For non-federal awards, the indirect cost will be considered a sponsor cap if explicitly limited in the request for proposal (RFP), if the awarding agency’s policy can be verified through their website or provided via written documentation from the head of the sponsoring organization of the sponsoring agency’s F&A policy that applies consistently to all recipients.

   The sponsor’s RFP, website URL or other documentation must be included with the proposal documentation submitted to ORS. The Dean/Director or Chancellor’s approval in myGRANT indicates the acceptance of the capped rate.

   Waivers

   Any reduction in the indirect cost rate that is not considered a sponsor cap as defined above, would be considered a waiver, and requires Chancellor or Chancellor’s designee approval.
3. How is an indirect cost rate waiver submitted for approval?

The PI/PD should determine in advance of submitting a proposal on whether a waiver approval should be obtained. The PI/PD should submit the request via their Dean/Director to the campus Chancellor or Chancellor’s designee for approval. The approved waiver request should be included with the myGRANT Proposal Development record as support when submitted to the Office of Research Services.

4. Are there any exceptions for indirect cost rates on State of Hawaii and local county government sponsors?

While full recovery of the indirect cost rate is allowed and preferred, UH administration understands that the application of the full federally negotiated indirect cost rate represents a challenge for State of Hawaii and county government sponsors. Therefore, UH will accept the following indirect cost rates based on modified total direct cost (MTDC) for the applicable fiscal year on new proposals submitted on or after July 1, 2015 for federal pass-through awards from State of Hawaii and/or local governments.

<table>
<thead>
<tr>
<th>FY</th>
<th>Rate</th>
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<tbody>
<tr>
<td>FY 2016</td>
<td>13%</td>
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<tr>
<td>FY 2017</td>
<td>16%</td>
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<tr>
<td>FY 2018</td>
<td>19%</td>
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<tr>
<td>FY 2019</td>
<td>22%</td>
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<tr>
<td>FY 2020</td>
<td>25%</td>
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At the end of the five-year period (June 30, 2021) the rates will be reassessed.

Although the full rate for non-federal funds from State of Hawaii and local county awards is preferred, a 10% rate will be accepted.

If the above rates are used for State of Hawaii and/or local county government awards, the reduced indirect cost will be considered a waiver and specific waiver approval by the Chancellor or Chancellor’s designee is not necessary. However, if an indirect cost rate lower that the rates noted above is included in the proposal, a waiver request to the Chancellor or Chancellor’s designee must be submitted for approval.

5. How are indirect cost rates handled on multi-year grants and contracts?

Multi-year Grants

In accordance with OMB UG, the indirect cost rates in effect at the time of the award is made shall be used through the life of the award.

Multi-year Contracts

Where the FAR clause 52.216-15 is incorporated into the contract, the predetermined indirect cost rates in effect for the fiscal period in which the costs are incurred shall apply.
6. How are indirect cost rates for continuation and supplemental funding handled?

For continuing funding that is funded without competition, the rates in effect at the time the original award was made shall be used in proposals for continuation funding.

Unless sponsor policies state otherwise, supplemental funding will be considered new funding. Thus, the most current indirect cost rates shall be used for proposals with supplemental funding.

National Science Foundation Specific Guidance

Please refer to NSF Proposal and Award Policies and Procedures Guide, Section V D (d), which notes continuing grant increments and supplemental support will be funded at the original agreement’s rates.

7. What rate should be included in a proposal if the work will be done both on-campus and off-site? Can both rates be used?

No, the terms of the rate agreement, which are standard, prohibit the use of more than one rate related to awards performed both on-site and off-site. If more than 50% of a project is performed off-site, the off-campus rate will apply to the entire project.

FAQs ON NEW RATE AGREEMENT

General

Question #1: Shouldn’t the university inform the sponsoring agencies about the new rate agreement?

Answer: The university’s cognizant agency, the US Department of Health and Human Services Division of Cost Allocation (HHS DCA), will reproduce and distribute the rate agreement to the appropriate awarding organization of the agencies of the federal government for their use. Principal investigators may furnish a copy of the rate agreement to their sponsors, but there is already an official process for distributing the rate agreement.

Proposals

Question #1: Why can’t I use the lowest rate in my proposal to be more competitive?

Answer: It is uncommon for the F&A costs included in a proposal budget to be a consideration in the decision to fund a project. Also, the F&A rates at UH are lower than equivalent rates at most universities.

Question #2: How do we submit multiple year budgets if we don’t want to go back and do a revision when awarded?
Answer: We believe that using the highest rate during the expected period of performance to budget for F&A costs in a multi-year proposal will alleviate this problem. The idea is that budgeting for the maximum F&A will allow the sponsor to adjust the rate to the current rates in effect at the time the award is made without affecting the direct cost budget.

Awards

Question #1: What’s going to happen to proposals submitted in the past that will probably be funded after July 1, 2013 with a significantly higher rate?

Answer: The old rate will not be grandfathered in because the award is received after July 1, 2013. At this point, awards will be handled as follows:

1. Awards funded at the new rate with additional funding: Accept with no changes.
2. Awards funded at the new rate without additional funding: If no prior waiver had been obtained upon submission of the proposal, rebudget internally or request a written waiver from the respective Chancellor or Chancellor’s designee.

Question #2: What happens to the award if the sponsor won’t fund the new rate (Assuming award is not a noncompeting continuation)?

Answer: Technically, the sponsor is required by the federal regulations to use the new rate. A deviation (e.g., using old rate of 36.7%) is considered a situation that would require a written waiver from the Chancellor or Chancellor’s designee.

Question #3: This is the first time the negotiated rates have been increasing by fiscal year on the rate agreement. How should the F&A rates be applied at project account establishment?

Answer: If a sponsor makes the award across UH fiscal years (July 1 through June 30), then the correct F&A rate is the negotiated rate(s) in effect. For example, if an award is made from September 1, 2014 through August 31, 2015 when the applicable rates in effect are FY2015 - 41.0 and FY2016 - 41.5, then the rates are 41.0 from September 1, 2014 through June 30, 2015 and 41.5 from July 1, 2015 through August 31, 2015. The principal investigator may obtain a written waiver from the Chancellor or Chancellor's designee, allowing use of one F&A rate across the award.
**Impact of New IDC Rates on Extramural Project Accounts**

**Scenarios:**

The following table summarizes different federal award scenarios and how a change in IDC rates over the term of the award will impact the application of IDC for that scenario on federal awards.

<table>
<thead>
<tr>
<th>Scenario</th>
<th>Application</th>
<th>Examples</th>
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<tbody>
<tr>
<td><strong>EXISTING AWARDS</strong></td>
<td></td>
<td></td>
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<tr>
<td>1. Non-competitive</td>
<td>Use rate on existing award</td>
<td>Sponsor and UH modify an existing fiscal year (FY) 13 agreement to include additional funds and additional time. The original award had an IDC rate of 36.7%. The modification will also carry an IDC rate of 36.7% even though the award may be extended through FY14.</td>
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<tr>
<td>2. Competitive</td>
<td>Use new rates</td>
<td>UH applied to sponsor under a competitive process to continue an existing award. IDC rate on new money portion of competitive award is subject to the new rates.</td>
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<tr>
<td>3. No Cost Extension</td>
<td>IDC rate in effect during final fiscal year of award</td>
<td>Sponsor approves a NCE which extends the award end date from June 30, 2014 to Sept 30, 2014. During July 1 – Sept. 30, 2014 expenses posted to the project account will include IDC at the rate of 40%.</td>
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<tr>
<td><strong>NEW AWARDS</strong></td>
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<tr>
<td>4. Crossing fiscal years</td>
<td>Based on rate agreement</td>
<td>Award terms &amp; Conditions:</td>
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<tr>
<td></td>
<td></td>
<td>Year 1: Oct 1-Sept 30, 2014</td>
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<td></td>
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<td>Year 2: Oct 1-Sept 30, 2015</td>
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<td>Year 3: Oct 1-Sept 30, 2016</td>
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<td>IDC Implications:</td>
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<td></td>
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<td>Year 1: Oct 1- June 30, 2014 – IDC rate =40%</td>
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<td></td>
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<td>Year 2: July 1- June 30, 2015 – IDC rate = 41%</td>
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<td></td>
<td></td>
<td>Year 3: July 1– Sept 30, 2015 – IDC rate = 41.5%</td>
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<tr>
<td></td>
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<td>Account Implications: On July 1 of each year of the award when the IDC rate changes, ORS accounting will change the IDC rate on the account to the new IDC rate. If the sponsor requires annual close-outs for each award year separate accounts by award year will be set up as required by the sponsor. If sponsor does not require specific financial reporting for each year of the award a single account can be used over the entire term of the award.</td>
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</table>
| 5. Pre-award | Indirect rate based on IDC rate in effect during pre-award period | Award terms & conditions provide for expanded authority and funds were spent prior to the start date of this award. 
Award Term: July 1, 2014 – June 30, 2015
IDC Implications:
IDC rate during the award term 41% 
IDC rate for expenses paid prior to July 1, 2014 = 40% |
| 6. Final Close-out | IDC rate in effect during final fiscal year of award | Award term July 1, 2014 – June 30, 2015 some expenses during final close-out are paid after June 30, 2015. IDC rate during liquidation period = 41.0% (rate in effect during FY 15).

NOTE: The F&A rate for supplemental awards will depend on the federal sponsor agency policies or the specific terms and conditions of the award. Some sponsors require the F&A rate for the supplemental award to be the same F&A rate as the original award. Where the sponsor agency does not restrict F&A rates, treat the supplement as a new award and use the most current F&A rate in effect.