

**University of Michigan
Office of Research and Sponsored Projects**

Standard Operating Procedures & Policies

Category:	Proposals
Procedure No.:	200.2
Title:	Indirect Cost Recovery and Waivers

I. Full Recovery of Indirect Costs

Indirect costs (also known as IDC, overhead, Facilities & Administrative costs or F&A) are real costs of University operations that are not readily or uniquely assignable to a funded project. The importance of recovering IDC as part of the full cost of a sponsored project cannot be overstated. Indirect costs help make it possible to conduct organized research at U-M by providing funds for research-related expenses like heat, light and custodial services in the lab, occupational safety and hazardous waste removal, telecommunications, departmental sponsored project administration, and many other support services.

Indirect cost rates are negotiated with the federal government under the guidelines of Title 2, Part 200 of the Code of Federal Regulations once every several years and are recovered by the University as a percentage of some or all of the direct cost expenses of funded projects.

Indirect cost rates are applicable to all sponsored projects, and *it is University policy that all sponsored projects recover full IDC whenever possible*. The Office of Research and Sponsored Projects (ORSP) publishes a list of current IDC rates by sponsor type and activity at http://orsp.umich.edu/proposals/budgets/indirect_cost_rates.html.

Principal Investigators (PI's) and their Project Teams may not negotiate IDC rates with sponsors. Should there be a need to negotiate the IDC rate of a specific project, PI's should notify their school, college, institute or center as soon as possible so that authorized University officials may proceed with a negotiation. PI's and their Project Teams are encouraged to seek counsel from their school, college, institute or center regarding acceptable IDC rates in advance of routing a Proposal Approval Form (PAF) in eRPM.

II. Less Than Full Recovery of Indirect Costs

There are two scenarios in which the University, when endorsed by the school, college, institute, or center, may consider accepting an indirect cost rate that is less than the current IDC rate published by ORSP. The first is when a prospective *sponsor places a cap on the IDC rate*. The second is when the *University elects to waive the recovery of IDC*, i.e., recover less than either ORSP's published full IDC rate or the sponsor-capped rate. Note, however, it is the University's expectation that all sponsors (especially federal, industry and foreign sponsors) will pay ORSP's published full IDC rates. Exceptions should be rare.

III. Process for Requesting Less than Full Recovery of Indirect Costs

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In the U-M Budget Model, indirect costs recovered from funded projects flow directly to the schools, colleges, institutes and centers responsible for securing the funded project. (The applicable institutes and centers are the Institute for Social Research, Life Sciences Institute, Center for Human Growth and Development, Institute for Research on Women and Gender, and Functional MRI

Facility.) For this reason, schools, colleges, institutes and centers are responsible for developing their own policies and procedures for requesting less than full IDC on a sponsored project.¹ These responsibilities include but are not limited to:

- Establishing criteria for when a sponsor-capped IDC rate will be accepted.
- Establishing criteria for what constitutes an IDC waiver.
- Determining how IDC waiver requests should be submitted and reviewed.
- Determining who is authorized to approve IDC waiver requests.
- Documenting whether an IDC waiver request has been approved.

Requests for waivers must be submitted and reviewed in accordance with this policy and those of the relevant school, college, institute, or center.

In addition to the policies and procedures above, indirect cost waivers will ultimately be approved in the ordinary course of reviewing and approving a PAF. As a recommended best practice, if a sponsored project is proposed with an IDC rate that is less than either (1) the applicable ORSP published full IDC rate, or (2) an acceptable sponsor-capped IDC rate meeting the criteria of the relevant school, college, institute, or center, then the “Indirect Cost Waiver” box should be checked in “Section 3.1 Budget Components” of the relevant PAF. In addition, any data fields that appear in the subsequent Indirect Cost Waiver screen of the PAF should be completed. However, PI’s and Project Teams are advised to consult their school, college, institute or center for specific requirements regarding the completion of IDC-related PAF fields.

Forms used by schools, colleges, institutes, and centers to document IDC waiver approvals may also be uploaded to the PAF, but will not be reviewed by ORSP staff.

IV. ORSP’s Role in Requesting Less than Full Recovery of Indirect Costs

ORSP Project Representatives (PR’s) will defer whenever practicable to the school, college, institute or center serving as the project’s administrative home on communications pertaining to indirect cost waivers. To that end, PR’s will endeavor to redirect project-specific questions regarding acceptable IDC rates to the schools, colleges, institutes, and centers until such time as all parties have agreed upon the IDC rate to be used for the sponsored project in question.

ORSP will consider approval of the PAF by the school, college, institute or center that is the project’s administrative home to be a concurrent approval on behalf of all project participants of the proposed IDC rate (whether full recovery, capped by the sponsor or waived). ORSP will not assess whether an IDC waiver or sponsor-capped IDC rate has been accurately represented and documented on the PAF.

¹ For the purpose of this policy only, the Dearborn and Flint campuses are considered to be equivalent to a school or college.

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Rather ORSP will presume the schools, colleges, institutes and centers have performed such due diligence in the course of approving the PAF. ORSP's approval of the PAF will constitute final University approval of any sponsor-capped IDC rate or IDC waiver request.

ORSP will endeavor to honor indirect cost waiver requests. However, the Associate Vice President for Research-Sponsored Projects reserves the right in exceptional circumstances to withhold approval of any proposal not requesting the full recovery of indirect costs. In such instances a rationale will be provided to the requesting department/unit, and school, college, institute or center that is the project's administrative home.

To help schools, colleges, institutes and centers optimize their IDC rate recovery, ORSP will endeavor to provide restricted access to data regarding IDC rates that have been successfully negotiated with industry and non-profit sponsors.

VI. Changes to Indirect Cost Rates Approved on a PAF

Occasionally, the IDC rate of proposal may need to be reduced after a PAF has been routed and approved (e.g., when ORSP determines that the Project Team has requested more than is allowed by the sponsor or when a sponsor requests a lower rate as part of a contract negotiation). In such cases, PR's will coordinate whenever practicable with the school, college, institute or center serving as the PAF's administrative home to determine whether a lower rate than was originally approved is acceptable. If applicable, schools, colleges, institutes and centers will in turn coordinate with their peer schools, colleges, institutes and centers before committing to a lower IDC rate. Schools, colleges, institutes and centers are also expected to communicate their decision to accept or decline a new lower IDC rate with their participating departments/units.

VII. Contact Information

Questions regarding this policy should first be directed to the relevant school, college, institute or center. Subsequent comments and questions should be directed to Andrea Anderson, Associate Director, Research and Sponsored Projects, at 734-615-8552 or anandrea@umich.edu.

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