

## **POLICY OF INDIRECT COSTS OF RESEARCH FACULTY OF ENGINEERING AND APPLIED SCIENCE**

### **1. Indirect Cost Rates**

This document describes the implementation of the University's policy on Indirect Costs (IC) in the Faculty of Engineering and Applied Science (FEAS), for funded research grants and contracts. This Policy does not apply to the Office of Industrial Outreach which has its own IC policy.

Indirect Costs are added as a cost category by the Principal Investigator(s) (PIs) at the development and proposal stage of research projects. All research grants and contracts are required to include indirect cost recovery. Grant Facilitators in the Engineering Research Office (ERO) will work with PIs to ensure that appropriate IC are included. Indirect Costs are included for several reasons and they benefit all concerned. The Indirect Costs are needed to fund central support services (legal, contractual, HR and financial services provided by the institution centrally), services in the Faculty (ERO, finance and administrative offices), departmental support and other indirect costs of the PI and co-investigators. Indirect costs are automatically deducted from research accounts at the standard rates as expenses are incurred.

Previous studies have shown that the actual indirect costs of research at a Canadian University is in the range of 40% to 60%, with an average of 49% (CAUBO and CAURA, 2013)<sup>1</sup>. Memorial's policy states that indirect costs must be charged on all externally funded research projects at a rate of 25% or more of total direct costs. In other words, the minimum is 25%. This document sets out the FEAS implementation of the University's policy. The Faculty approach is aligned with Memorial's overall IC policy. It includes the actual costs of pre- and post-award management and administration in FEAS.

As of September 1, 2019, the required indirect cost rate for all new research projects is:

- 25% of all direct costs for non-industry research grants<sup>2</sup> (government agencies and non-profit organizations); or
- 40% of all direct costs on research contracts with industry (including industrial contribution to NSERC Research Partnership Programs) and for-profit organizations.

These rates are consistent with many other Canadian universities (see Appendix). In the case of a sponsor with a formal written policy of indirect costs lower than 25%, the maximum allowable rate will be applied as stipulated by the sponsor. Exceptions are rates approved by the university through the Office of the Vice-President Research, and the Dean of FEAS.

<sup>1</sup>CAUBO (Canadian Association of University Business Officers) and CAURA (Canadian Association of University Research Administrators), 2013, Indirect Costs of Research - Joint Survey Administered by CAUBO/CAURA.

<sup>2</sup>Federal tri-council agencies provide the university with approximately 25% indirect costs, in addition to the grant funding available to the faculty member.

## 2. Treatment of Faculty Time

In keeping with the general university IC policy, also “Direct and Indirect Costs associated with a faculty member’s time must be included in the budget.” These costs can be considered as in-kind contributions in research grants and contracts. Nevertheless, if the PI and/or co-investigator wish to have direct faculty time charged and recovered in a research contract, then associated IC costs will also be recovered. A faculty member’s time can be calculated based on the rates below (notes: daily rates determined by the faculty salary cap at a given rank divided by the number of working days in a year).

<b>Rank</b>	<b>Rate including 18% benefits</b>	<b>Rate including 18% benefits and 25% overhead (grants)</b>	<b>Rate including 18% benefits and 40% overhead (contracts)</b>
Assistant Professor	\$500/day	\$625/day	\$700/day
Associate Professor	\$650/day	\$813/day	\$910/day
Full Professor	\$800/day	\$1,000/day	\$1,120/day

Table 1: Rates of faculty time for research contracts

In cases where the faculty member’s time is billed to the project but retained by FEAS (not paid as personal income), the Faculty will apportion these funds as follows:

- 40% of these funds to the faculty member if the funds are used as a research grant; or
- 60% of these funds to the faculty member if it is used as a facility grant where the funds support facilities of general use.

The Dean, in consultation with the ERO, will determine if the use of funds constitutes research or general facility investment. The remainder (60% or 40%) will be retained by the Faculty. The indirect costs on a faculty member’s time will be distributed as per the normal policy (section 3).

In cases of research contracts where the faculty member’s time is billed and paid as extra personal income (at an indirect cost rate of 40%), the recovered IC will be distributed as per the normal practice (see section 3).

## 3. Distribution of Recovered Indirect Costs

This sections describes various cases for distributing the indirect costs (IC) collected in research projects. Memorial’s policy states the normal model for distribution of IC is apportioned as follows.

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### Central Distribution:

- a) the first 12.5% of Direct Costs (corresponding to 50% of the first 25% of Indirect Costs) to the Office of the Vice-President (Research).

**Local Distribution where Post-Award Administration is in a Faculty/School/Campus (total Indirect Cost less the Central Distribution): NOTE Post-Award administration is not done at the departmental level in the Faculty of Engineering and Applied Science.**

- b) 40% of the remaining .... to the Dean with responsibility for the post-award administration.
- c) 30% of the remaining Indirect Costs to ... the head ... that is post-award administering the Research Contract (in FEAS this refers to the Faculty). Where no subdivision exists ... this portion is distributed to ... the Dean.
- d) 30% of the remaining Indirect Costs to ... the Principal Investigator(s).

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An exception is the case of a sponsor having a formal written policy of indirect costs lower than 25%. Here the distribution formula is modified.

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**Central Distribution:**

- a) 50% of the indirect costs to the Office of the Vice-President (Research).

**Local Distribution:**

- b) The remaining 50% is distributed with a 40/30/30 (Faculty/Unit/PI) model as described above.

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With the above for context, the following examples describe the distribution of ICs. The indirect costs for pre- and post-award research activities are all absorbed by either the university or the Faculty centrally. In FEAS, research administration is performed in the ERO and central finance offices rather than within the departments. Nevertheless, the individual departments do have an important role in fostering a strong research climate.

Therefore, the Faculty shares the recovered IC funds with a 50/20/30 (Faculty/Unit/PI) model. Examples below show how the funds are typically distributed.

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**Example 1 – Standard Case of a Research Grant, IC = 25%**

Project Costs: \$100

Indirect Cost: \$25

Total Billed: \$125

To VPR's Office \$12.5, To Dean's Office \$12.5 (which is then split 50/20/30 - Dean \$6.25, Unit \$2.50, PI \$3.75)

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**Example 2 – Standard Case of a Research Contract, IC = 40%**

Project Costs: \$100

Indirect Cost: \$40

Total Billed: \$140

To VPR \$12.5, To Dean's Office \$27.5 (which is then split 50/20/30 - Dean \$13.75, Unit \$5.50, PI \$8.25)

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Example 3 – Standard Case of a Research Grant for Funding Agency with <25% (say 20%)

Project Costs: \$100

Indirect Cost: \$20

Total Billed: \$120

To VPR's Office \$10, To Dean's Office \$10 (which is then split 50/20/30 - Dean \$5, Unit \$2, PI \$3)

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### APPENDIX: Examples of Indirect Cost Rates at other Canadian Universities

University	Link	Indirect Cost Rate	Notes
McGill University	<a href="https://www.mcgill.ca/research/research/proposal/indirect-costs">https://www.mcgill.ca/research/research/proposal/indirect-costs</a>	27% and 40%	<ul style="list-style-type: none"> <li>Grants/contracts from government and not-for-profit organizations: 27%.</li> <li>Grants, contracts, and agreements with industry and other for-profit organizations: 40%.</li> </ul>
University of Toronto	<a href="http://www.research.utoronto.ca/faculty-and-staff/secure-research-funding/apply-for-funding/">http://www.research.utoronto.ca/faculty-and-staff/secure-research-funding/apply-for-funding/</a>	No less than 40%	<ul style="list-style-type: none"> <li>University's Planning and Budget Office calculates annually the actual indirect cost of research at U of T. The most recent estimate is 56.7%.</li> <li>In terms of recovery of indirect costs, the University has a standard Indirect Research Cost rate of no less than 40% of total Direct Costs, or the maximum allowable rate as published by the sponsor.</li> </ul>
UBC	<a href="https://research.ubc.ca/support-resources/indirect-costs-budgeting-finance">https://research.ubc.ca/support-resources/indirect-costs-budgeting-finance</a>	25% and 40%	<ul style="list-style-type: none"> <li>25% of all direct costs for non-industry funding (government and non-profits).</li> <li>40% of all direct costs on industry funding.</li> </ul>
McMaster University	<a href="https://milo.mcmaster.ca/researchers/sponsored/overhead">https://milo.mcmaster.ca/researchers/sponsored/overhead</a>	25% and 40%	<ul style="list-style-type: none"> <li>NSERC Programs: 25%.</li> <li>Provincial / Municipal / Federal Government and Private Sector: 40%.</li> </ul>
University of Guelph	<a href="https://www.uoguelph.ca/research/for-researchers/funding/apply/indirect-costs">https://www.uoguelph.ca/research/for-researchers/funding/apply/indirect-costs</a>	25% and 40%	<ul style="list-style-type: none"> <li>Research Grants (Indirect Cost Rate of 25%).</li> <li>Research Contracts (Indirect Cost Rate of 40%).</li> </ul>