

Subawards and Indirect Costs: A Speedy Overview



Theresa Saunders-Landreth
Subaward Specialist
Sponsored Projects Office

RAC Forum – May 10, 2017

The Questions:

- The Subaward Team has been getting questions from PIs and RAs regarding confusion about:
 - UCB's vs. a Subrecipient's indirect costs
 - UCB indirect costs charged against Subawards
 - UCB indirect costs charged against Multi-Campus Award
 - UCB indirect costs charged against Subrecipients vs. Vendors
 - NIH's practice of excluding Subrecipient F&A when determining modular and prior-approval budget requirements



UCB's Payment of Subrecipient Indirect Costs

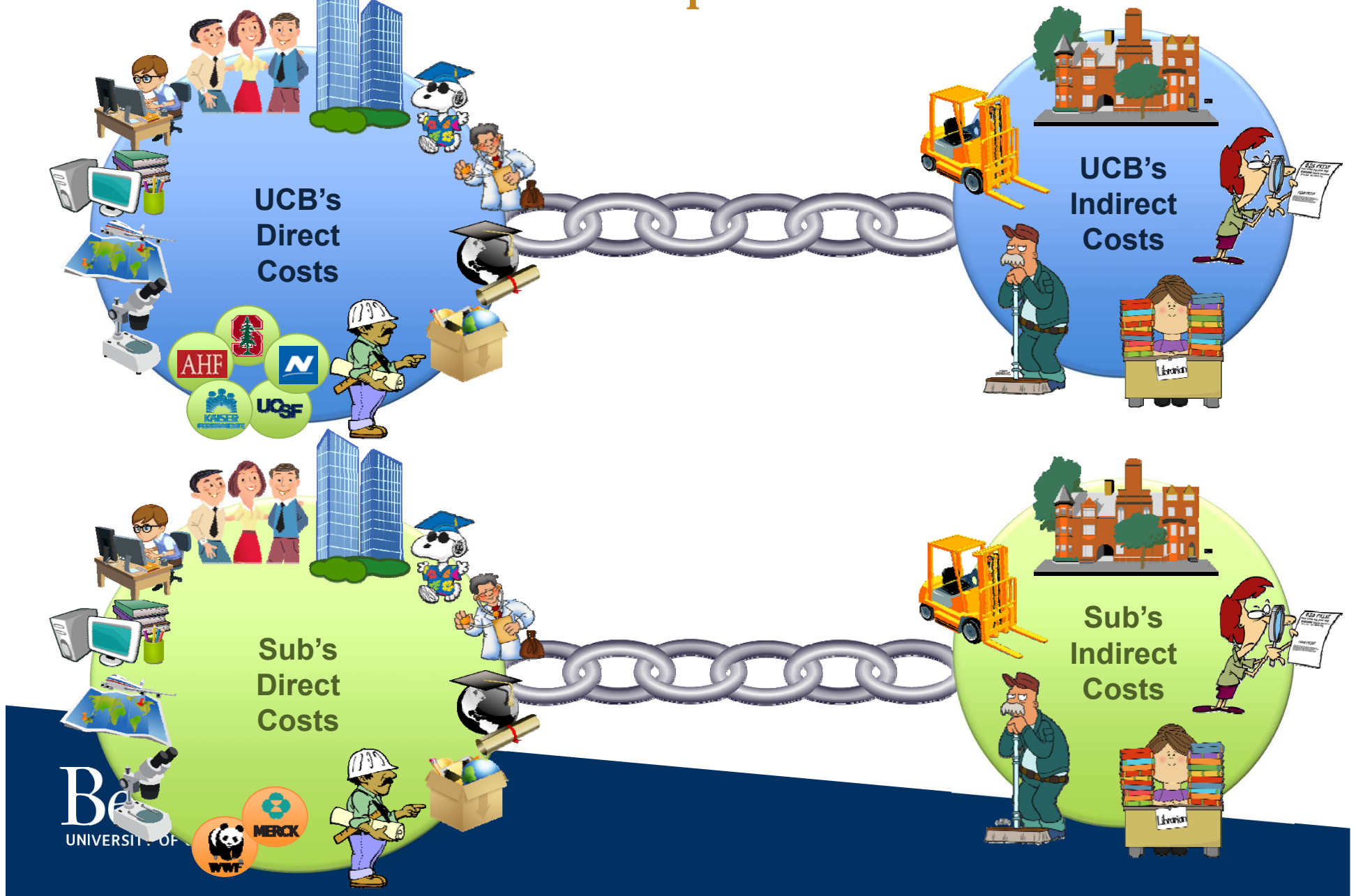
A Subrecipient's total costs (direct + indirect) are part of UCB's direct costs.

UC Berkeley pays Subrecipients for their total incurred costs, including both their direct and indirect costs.

- Subrecipient's Personnel
- Subrecipient's Consultants
- Subrecipient's Materials/Supplies
- Subrecipient's Travel
- Subrecipient's Project Equipment
- Subrecipient's Other Direct Costs
- **Subrecipient's Indirect Costs**



UCB's Indirect vs. Subrecipient's Indirect



When Indirect Costs are Charged:

**UCB's
Direct Costs**

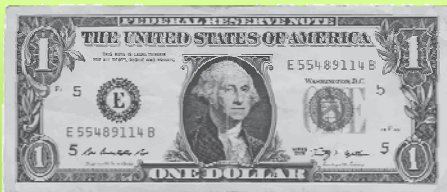


**UCB's
Indirect Costs**



EXCEPT....

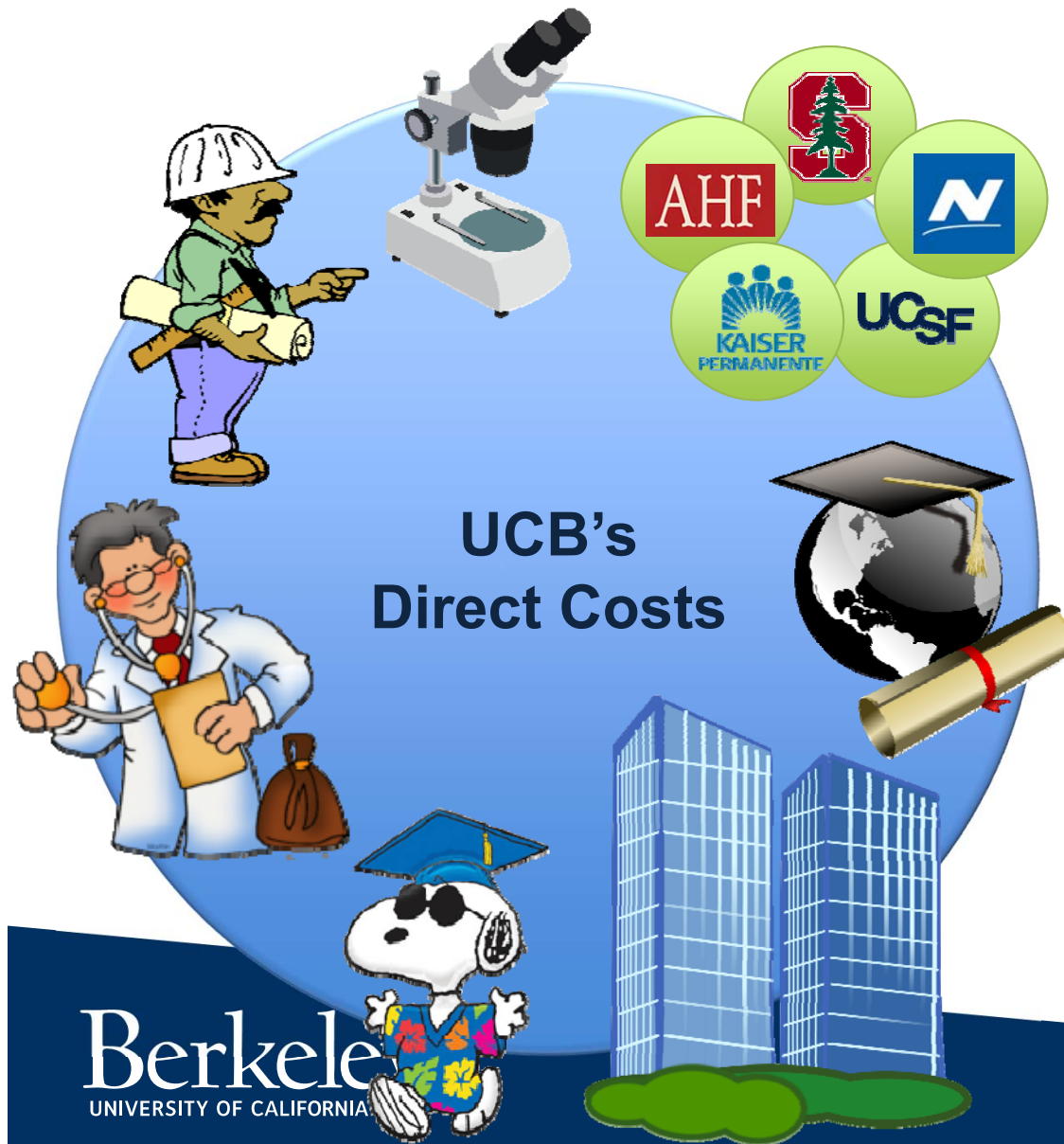
**Sub's
Direct Costs**



**Sub's
Indirect Costs**



When Indirect Costs are not Charged:



Modified Total Direct Costs (MTDC) Exclusions:






- Project Equipment/Fabrication
- Capital Expenditures
- Patient Care Costs
- Student Tuition Remission
- Rent for Off-Site Facilities
- Scholarships and Fellowships
- Subaward Costs > \$25,000 and all Subaward Costs to other UC Campuses

MTDC exclusions are direct costs that would create inequity in the distribution of indirect costs.

When Indirect Costs are not Charged:

MTDC excluded costs would incur disproportionately high indirect costs, if we were to apply our indirect rate against their full direct cost.

Example: Subaward Costs > \$25,000 and all Subaward costs to other UCs

	Subaward	Cost	Indirect Rate	Indirect Cost (Without Exclusion)	Indirect Cost (With Exclusion)
	AHF	\$10,000	57.00%	\$5,700	\$5,700
	Stanford	\$25,000	57.00%	\$14,250	\$14,250
	UCSF	\$100,000	57.00%	\$57,000	\$0
	Kaiser	\$500,000	57.00%	\$285,000	\$14,250
	Northrup	\$1,000,000	57.00%	\$570,000	\$14,250





Administering an “expensive” Subaward, should not cost UC Berkeley more than administering a “cheap” Subaward.

Subrecipient vs. Vendor Indirect Costs

Because UCB only charges indirect on the first \$25,000 of each Subrecipient's total costs, it is very important to make sure that Vendors are not budgeted as Subrecipients, at the proposal stage.

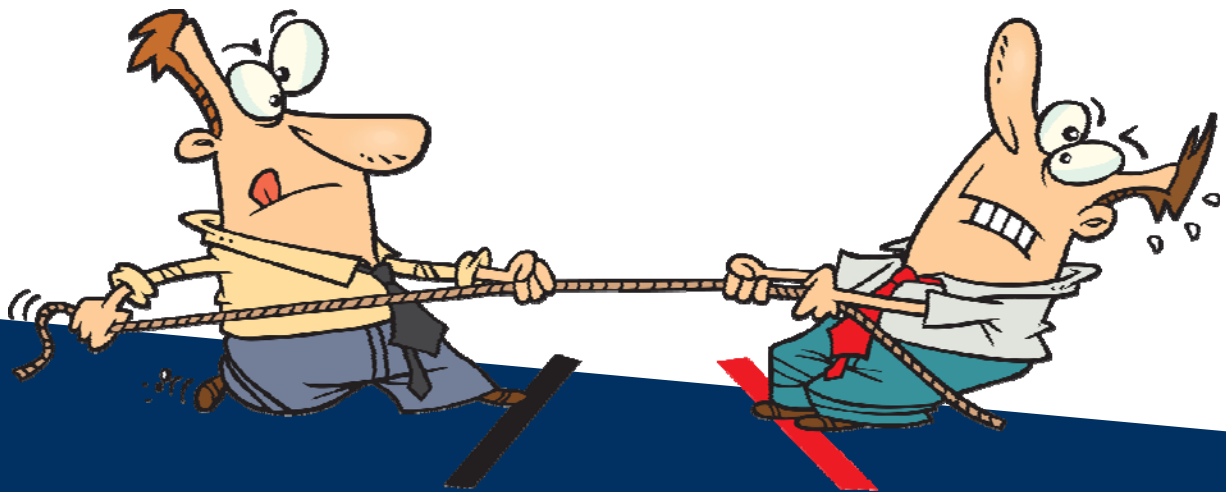
Example:

Entity	Vendor Cost	Indirect Rate	Budgeted as a....	Indirect Cost to Project Budgeted as...
SSI Survey Research	\$75,000	57.00%	Vendor	\$42,750 (Correct)
			Subrecipient	\$14,250 (Incorrect)
			 "Ouch Factor" =	\$28,500
Quest Diagnostics	\$500,000	57.00%	Vendor	\$285,000 (Correct)
			Subrecipient	\$14,250 (Incorrect)
			 "Ouch Factor" =	\$270,750

Subrecipient vs. Vendor Indirect Costs

Why is it important to distinguish between a Subrecipient and a Vendor?

- Subaward:
 - Subrecipients are partners in our research and are involved in programmatic decision making.
 - Subrecipients must conduct their portions of research projects in compliance with all applicable terms and conditions of the Prime Award.
 - Subrecipient costs must be reasonable and allowable.
 - Subrecipients retain ownership rights to patentable or copyrightable products.
- Vendor:
 - Vendors are simply a “for-hire” entity.
 - Vendors are not bound to the full set terms and conditions of the Prime Award.
 - Vendors are subject to competitive bid, to assure payments do not exceed fair market value.



Subrecipient vs. Vendor Indirect Costs

Questions to ask before including a Subrecipient, in a proposal:

- Do they commonly provide goods/services as their normal business?
- Do they provide similar goods/services to other purchasers?
- Are the goods/services being provided secondary to the central purpose of the project?
- Is their work carried out according to the UCB specifications using standard operating procedures?

If “yes” to any of these, the entity fits the profile of a VENDOR

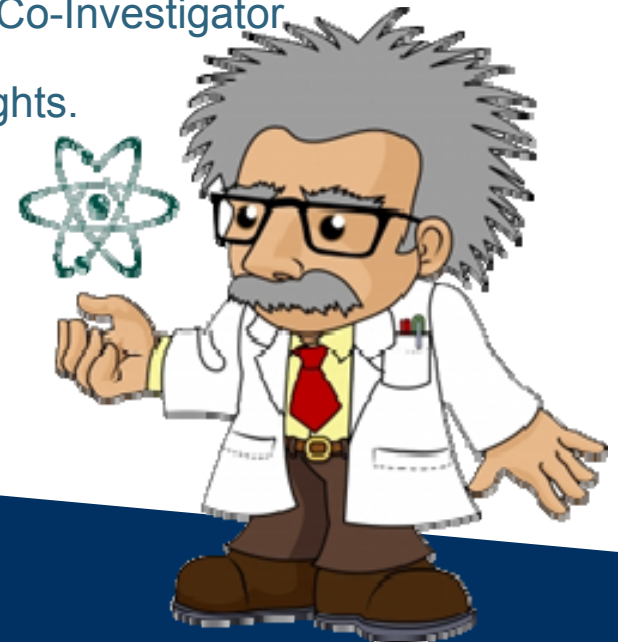
http://www.spo.berkeley.edu/guide/subaward_guide.html



Subrecipient vs. Vendor Indirect Costs

By contrast, a Subrecipient will:

- Conduct substantive, programmatic work, or an important or significant portion of the research.
- Participate in a creative way in designing and/or conducting the research.
- Retain some element of programmatic control and discretion over how the work is carried out.
- Make independent decisions regarding how to implement the requested activities.
- Have a PI who has been identified and functions as a Co-Investigator
- Expect to retain ownership rights for patents or copyrights.
- Expect to co-author papers.



NIH and Subrecipient F&A

- For NIH proposals, Subrecipient F&A costs are NOT included as part of the direct cost base when determining whether an application can use the modular format (direct costs < \$250K/year), or determining whether prior approval is needed to submit an application (direct costs > \$500K/year).

<https://grants.nih.gov/grants/how-to-apply-application-guide/format-and-write/develop-your-budget.htm>

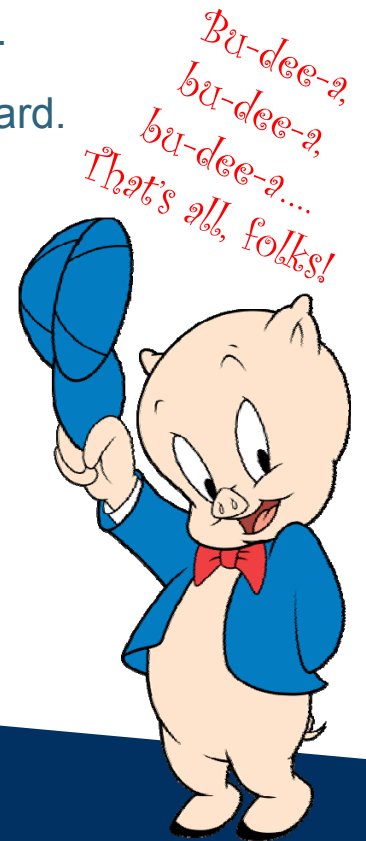
- Once funding is awarded:
 - The Sponsor will provide funding to cover the Subrecipient's indirect costs as budgeted in the proposal; and
 - UCB is responsible for paying the Subrecipient's indirect costs, as part of UCB's direct cost line item.
- SPO requires a detailed Subrecipient budget for Modular grants:
 - To check for correct F&A cost calculations; and
 - For use as the Subaward budget, at the time of award.



Take-Home Summary:

- Direct costs are those that are completely attributable to the research.
- Indirect costs are those needed to provide the infrastructure for the research.
- Both UCB and Subrecipients have indirect costs that support the research.
- UCB only collects indirect costs when a researcher spends direct costs.
- Subrecipient indirect costs are part of UCB Direct costs, and are paid in full.
- UCB only collects its own indirect costs on the first \$25,000 of each Subaward.
- UCB collects none of its own indirect costs on Subawards to other UCs.
- Be very careful not to budget a Vendor as a Subrecipient.
- SPO has fantastic resources related to indirect costs on its website:

<http://www.spo.berkeley.edu/procedures/budget.html>



Questions:

Q: If a Sponsor Award allows for budgeting of indirect costs with a base of Total Direct Costs (as opposed to Modified Total Direct Costs), does UCB get to collect indirect costs on the total cost of Subawards?

A: Yes. If a base of Total Direct Costs is approved by the Sponsor, then UCB can be able to collect indirect costs on the total cost of a Subaward, not just the first \$25,000.

The Total Direct Cost (TDC) base includes all of the direct costs being charged to the Sponsor. Nothing is excluded from the base prior to calculating the indirect costs (F&A). This base is typically used when a Sponsor declines to pay Berkeley's federally approved indirect cost/F&A rate and an F&A waiver is granted by the University..

