

Business Office

Overhead Rate Development

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This is a working document and as such, we would appreciate any information and/or insight which would help us develop stronger policies for NMIMT's research community.

I. Introduction

The term **overhead** is synonymous with Facilities and Administrative (F&A) or indirect costs. Indirect costs are those that have been incurred for common or joint objectives and therefore cannot be identified specifically with a particular sponsored project, instructional activity, or other institutional activity (OMB A-21 Section B.4). A negotiated, fixed with carryforward rate is established through an audit process conducted by Defense Contract Audit Agency (DCAA) on behalf of NMIMT's cognizant agency Office of Naval Research (ONR). Rates are developed under the requirements of the U.S. Office of Management and Budget Circular A-21 (OMB A-21), Cost Principles for Educational Institutions.

Rates are developed, proposed and negotiated on an annual basis with ONR for the following functions:

- Organized Research (on-campus and off-campus)
- Other Sponsored Activities (on-campus and off-campus)

II. Indirect Cost Pools

The overhead calculation process is intricate. And involves the assignment of a cost category to all accounts within NMIMT's ledger. This facilitates management's ability to sort the accounts into various types of categories. The general operating expenditures of the university are grouped into the following 7 categories collectively referred to as indirect cost pools: building usage allowance, equipment usage allowance, operations and maintenance, departmental administration, general administration, sponsored projects administration and the library. These costs are then allocated to the 4 functions of the university: instruction, research, other sponsored activities and other institute activities. The overhead rate consists of a numerator which represents the sum of the allocation of the 7 indirect cost pools divided by the denominator which includes modified total direct costs of a particular function.

Following is a description of the 7 indirect cost pools

- **Building Usage Allowance** – compensation to NMIMT for use of buildings, capital improvements to land and buildings (OMB A-21 Section F.2 and J.14). Computation is based on the acquisition cost of the assets involved excluding any portion borne by federal contributions and land at the rate of 2%.

Allowance is allocated to the major functions of the Institute on the basis of usable square footage. In those instances where space is used jointly by more than one function, the space is allocated to benefiting functions on the basis of institution-wide employee salaries and wages applicable to the benefiting major functions in accordance, with OMB A-21 Section F, paragraph 3b.

- **Equipment Usage Allowance** – compensation to NMIMT for use of equipment (OMB A-21 Section F.2 and J.14). Computation is based on the acquisition cost of the assets involved excluding any portion borne by federal contributions at the rate of 6 2/3%.

Allowance is allocated to the major functions of the Institute on the basis of usable square footage. In those instances where space is used jointly by more than one function, the space is allocated to benefiting

functions on the basis of institution-wide employee salaries and wages applicable to the benefiting major functions in accordance, with OMB A-21 Section F, paragraph 3b.

- **Departmental Administration** – expenses under this heading are those that have been incurred for administrative and supporting services that benefit common or joint departmental activities or objectives in academic deans' offices, academic departments and divisions, and organized research units. (Cost Category 40, OMB A-21 Section F.6)

Acceptance of these expenses must be based upon a determination that the department is engaged in organized research and the departmental administrative personnel perform functions benefiting organized research.

In addition, each academic department is allocated its share of the academic dean's expenses attributable to administrative functions. Salaries and fringe benefits attributable to administrative work (including bid and proposal preparation) of faculty (including department heads), and other professional personnel conducting research and/or instruction, is allowed at a rate of 3.6% of modified total direct costs. The allowance is added to the computation of the F&A cost rate; the expenses covered by the allowance are excluded from the departmental administration cost pool.

Cross allocations to departmental administration include building and equipment usage allowance, operations & maintenance, and general and administrative costs.

- **General Administration and General Expenses** – expenses under this heading are those that have been incurred for the general executive and administrative offices of NMIMT which serve the entire university system. They include the Presidents office, V.P Administration & Finance, Purchasing, Business Office, General Accounting, Human Resources, etc. (Cost Category 50, OMB A-21 Section F.5)

The general administration and general expense category includes its allocable share of operation and maintenance expenses, building and equipment usage allowance.

- **Sponsored Projects Administration**- expenses under this heading are limited to those incurred by a separate organization(s) established primarily to administer sponsored projects. It includes costs incurred by the Restricted Funds Department. (Cost Category 60, OMB A-21 Section F.7)

This category includes its allocable share of operation and maintenance, general administration and general expenses, building and equipment usage allowances.

- **Operations and Maintenance** –expenses under this heading are those that have been incurred for the administration, supervision, operation, maintenance, preservation and protection of the institutions physical plant. It includes PPlant administration utilities, janitorial services, building repair and maintenance, etc. (Cost Category 80, OMB A-21 Section F.4)

Rates are developed for general operating costs of PPlant, custodial services and utilities. The rates are then applied to the functions of NMTECH on the basis of square footage.

- **Library** – expenses under this heading are those that have been incurred for the operation of the library, including the cost of books and materials. (Cost Category 70, OMB A-21 Section F.8)

The library expense includes its allocable share of equipment/building usage allowances, operations & maintenance, and general administrative costs. Expenses are first allocated on the basis of primary categories of users i.e., student and professional. This amount is then further assigned to the various functions of the institution.

The activities in the accounts assigned to these 7 pools must be consistent with OMB A-21's definition of the function and must not include expressly unallowable costs outlined under Section J of OMB A-21.

III. Functions

Pooled costs are allocated to the following four functions of NMIMT:

- **Instruction** – teaching and training activities of NMIMT
- **Research** – sponsored research funded from federal, state and private sources and University research a form of organized research which is separately budgeted under an internal allocation of institutional funds
- **Other Sponsored Activities** – programs and projects financed by federal and non-federal agencies and organizations which involve the performance of work other than organized research.
- **Other Institute Activities** – consist of auxiliary enterprises and costs which are "unallowable" (for indirect cost rate purposes) to sponsored agreements. Examples: operation of residence halls, intercollegiate athletics, bookstores, student administration and services, lobbying and marketing (defined as the unsolicited promotion of NMIMT) efforts.

Rates are currently developed for the Research and Other Sponsored Activity functions.

IV. Space

Finally, as part of the overhead rate development process a space study is performed every two years. The objective of this study is to perform a room by room space inventory to determine the room type, what department occupies the space, and what type of activity is performed in the room. The information obtained from this survey is used to allocate expenditures to the different cost categories in the Indirect Cost Study and Proposal.

V. References

- Office of Management and Budget Circular A-21. "Cost Principles for Educational Institutions."
- Defense Contract Audit Agency Contract Audit Manual (January 2000)