



January 23, 2008

To: Deans of the Schools of Science, Engineering, Sloan, Architecture and Humanities and Social Sciences; Heads of Departments, Labs and Centers; Principal Investigators

From: Michelle D. Christy, Director of Sponsored Programs

Subject: MIT Implementation of the Department of Defense F&A Cap on Basic Research Funding

As many of you are beginning to learn, the FY 2008 Department of Defense appropriation signed November 17, 2007 includes a cap on overhead of 35% of the total project costs. Specifically, the language of Section 8115 of the Department of Defense (DoD) Appropriations Act of 2008, states “. . . [n]one of the funds made available in the Act may be used to pay negotiated indirect cost rates on a contract, grant, or cooperative agreement (or similar arrangement) entered into by the Department of Defense and an entity in excess of 35% of the total cost. . . provided that this limitation shall apply only to contracts, grants, or cooperative agreements entered into after this date using funds available in this Act for fiscal year 2008 for basic research.”

Key Points in the Implementation Guidance Issued for the Act

- The limitation applies only to prime awards. It does not flow down to subrecipients.
- The limitation applies only to new awards. It does not apply to FY08 funding added to awards made in FY07 or earlier.
- The limitation applies only to DOD basic research funding (i.e. 6.1 funds). Such awards will include a specific requirement that the F&A limitation applies.
- The limitation applies to the entire period for which the FY08 award is funded. That is, funds expended in FY09 or FY10 may be subject to the limitation if the award was made with FY08 funds. At the present time, the limitation is *only* for FY08 funding and *only* for DOD basic research funding (grants, contracts, cooperative agreements).

The “Math” of the Limitation

Because the DoD F&A is now being calculated on total costs, rather than MIT's approved rate of 67% of modified total direct costs, there may be cases when the F&A incurred exceeds the cap because there is little or no tuition, equipment or other expenses exempt from overhead. Expressing the DOD cap in our normal terms would mean that the F&A collection cannot exceed 53.85% MTDC (a ratio of 35 cents of F&A to 65 cents of direct costs). This assumes that all direct costs on the award are subject to overhead (MTDC=TDC).

The chart below illustrates three such examples for an award of \$1 million. In cases where a project contains little or no tuition, equipment, or other expenses exempt from overhead (Example A) there is a high risk of exceeding the new DOD cap. For more typical awards (Examples B and C), which contain moderate amounts of these expenses, the cap will have a relatively small effect.

MIT Office of Cost Analysis
FY 2008

	A	B	C	
	MTDC =	MTDC =	MTDC =	
Costs	TDC	82% of TDC	79% of TDC	
S+W	100,000	100,000	100,000	
EB	24,000	24,000	24,000	
M&S	474,803	355,988	336,252	
Subawards < \$25K		50,000	50,000	
Major Equip		54,920	54,920	
Tuition		10,000	30,000	
Subawards > \$25K		50,000	50,000	
TDC	598,803	644,908	645,172	
F&A @ 53.85%	322,455	347,283	347,425	<-- Max allowable under the cap
Total Cost	921,258	992,191	992,597	
F&A % of Total Cost	35.00%	35.00%	35.00%	
Non-MTDC	-	114,920	134,920	
MTDC	598,803	529,988	510,252	
F&A @ 67%	401,198	355,092	341,869	<-- MIT's F&A recovery
Total Cost	1,000,001	1,000,000	987,041	
F&A % of Total Cost	40.12%	35.51%	34.64%	
Adjustment Needed	-78,743	-7,809	5,556	

MIT Implementation of the Limitation

Should we be changing the way we create proposal budgets?

No. At this time, the cap only applies for FY08 funding. MIT will continue to submit proposal budgets using our standard budgeting process. All current rates and calculations are built into Coeus and updated on a regular basis.

How will this affect our new awards?

Sponsors may ask MIT to provide a revised budget that reflects the cap for the period of funding being provided from FY 08 funds. As always, the sponsoring agency has the ability to reduce proposal budgets at the time of award, though we will argue that this change should not have any unique effect on the award process. DOD will need to incorporate specific language about the cap into new awards, as we are typically not able to determine what governmental source of funds is used for specific award. Awards affected by the cap will be established in Coeus and SAP with a unique identifier; child accounts will be established when necessary to separate these funds from other awards funds. In addition, the Notice of Award will include a statement that the cap is applicable to the award.

How will we know if we've exceeded the cap?

Sponsored Research Accounting and OSP will review cumulative costs incurred on each capped award on a quarterly basis. However, note that the requirement applies to spending for an entire budget period, so we will not know if an award has exceeded the cap until the end of the budget period. Therefore, adjustments will typically take place at the end of the budget period. Sponsored Accounting will make the adjustments necessary under the DOD policy.

How do we handle awards that exceed the cap?

The under recovery related to these awards will be handled in accordance with standard MIT policy. Specifically, if the department, lab or center does not have the funds to cover the under recovery resulting from this change, the unit head should contact the appropriate dean or the provost's office to identify an appropriate source of funds.

Next Steps:

Plans are in progress to develop tools that will allow departments to monitor the awards affected by the cap. OSP and CAO will be organizing a Q&A session soon to discuss implementation details.

Please contact myself, or John Donahue, the Assistant Director of OSP & Head of Cost Analysis or your contract administrator with any questions regarding the implementation of this new policy.

C: Administrative Officers / Fiscal Officers
C. Canizares, R. Reif, D. Morris, C. Placido, B. Bonvillian