Understanding Facilities & Administrative (F&A) Rates

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Symposium for Research Administrators
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Why an F&A Cost Rate?

• It is federal policy to provide for the reimbursement of F&A costs except when specific limitations and prohibitions exist.

• This is accomplished through use of an F&A rate.

• The cognizant agency negotiates and approves the F&A rates for an educational institution on behalf of all Federal agencies (2 CFR 220, OMB Circular A-21, section G.11).
What is the F&A Cost Rate?

- A single number that reimburses the institution for the use of:
  - Buildings
  - Equipment
  - Interest on Debt
  - O&M
  - General Administration
  - Departmental Administration
  - Sponsored Projects Administration
  - Library
...or stated another way...

- The ratio, expressed as a percentage, of an OR facilities and administrative cost pool and an OR direct cost base.

- The OR cost pool is made up of allocations from the administrative and facilities cost pools.

- OR pool costs / OR base direct costs = OR F&A rate.
Calculation of the Facilities & Administrative Cost Rate
(aka = Indirect Cost Rate)

**F&A COSTS**
- Building Depreciation
- Equipment Depreciation
- Interest on Debt
- Operations & Maintenance
- Library Support
- General Administration
- Departmental Administration
- Sponsored Project Administration

**DIRECT COSTS**
- Research Salaries & Fringes
- Consultant Services
- Travel
- Technical Services
- Research Supplies
- Subcontracts up to $25,000
- Committed Cost Sharing

$179,140,000 \( \div \) Direct Costs \( \rightarrow \) \$344,500,000

\[ \frac{0.52}{0.52} = 52\% \]
Types of F&A Rates

- Negotiated lump sum for F&A (G.3)
- Predetermined rates - normally for 2-4 years (G.4)
- Fixed rates and carry forward provisions (G.5)
- Provisional and final rates (G.6)
- Simplified Method for Small Institutions (<$10 million total direct cost in a year) (H)
Commonly Used Acronyms

- **F&A** – Facilities and Administrative = Indirect Costs
- **MTDC** – Modified Total Direct Cost
- **MTC** – Modified Total Cost
- **TDC** – Total Direct Cost
- **S&W** – Salaries and Wages
- **FTE** – Full Time Equivalent
- **GA** – General Admin and General Expenses
- **SPA** – Sponsored Projects Administration
- **DA** – Departmental Administration
- **OIA** – Other Institutional Activities
- **OSA** – Other Sponsored Activities
- **OR** – Organized Research
- **O&M** – Operations and Maintenance
THE DIRECT COST BASES
The Direct Cost Bases

• Bases represent an institution’s direct costs activities (A-21, Section B.1):
  – Instruction and departmental research (IDR)
    • Sponsored instruction and training
    • Departmental research
  – Organized research (OR)
    • Sponsored research
    • University research
  – Other sponsored activities (OSA)
  – Other institutional activities (OIA)
The Direct Cost Bases

• A-21, Section G.2 discusses the distribution basis for F&A costs and defines it as modified total direct costs (MTDC).

• MTDC usually includes:
  – Salaries and wages & associated fringe benefits
  – Materials and supplies
  – Services
  – Travel
  – Sub-grants and subcontracts up to the first $25,000 of each sub-grant or subcontract
The Direct Cost Bases

• MTDC excludes (G.2):
  – Sub-grant and subcontract costs over $25,000
  – Equipment (capital equipment only)
  – Capital expenditures
  – Patient care
  – Tuition remission
  – Scholarships and fellowships
  – Space rental costs
The Direct Cost Bases

• Issues to consider
  – Unallowable costs (C.12.e)
  – Cost overruns (CAS 9905.505)
  – Cost share or matching (CAS 9905.502)
  – Salaries over the NIH cap
  – Research training grants (B.1.b(1))
  – Applicable credits (C.5)
  – Bases other than MTDC
INDIRECT COSTS
Facilities & Administrative Costs

Costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, instructional activity or any other institutional activity. (B.4)
The Facilities Components

- Building depreciation pool
- Equipment depreciation pool
- Building interest pool
- Operations and maintenance pool
- Library pool
Depreciation and Use Allowance

- Expenses are for the portion of costs related to the institution’s buildings, capital improvements to land and buildings, and equipment which are computed in accordance with J.14, see also F.2.

- Exhibit A schools must use depreciation recoveries within 5 years to acquire or improve research facilities. J.14.h
Interest on Debt

- Interest associated with certain buildings, equipment and capital improvements are allowable if they support sponsored agreements (F.3 and J.26)
  - Buildings acquired or completed after July 1, 1982
  - Major reconstruction and remodeling of existing buildings completed on or after July 1, 1982
  - Acquisition or fabrication of capital equipment completed on or after July 1, 1982, costing $10,000 or more, if the government agrees
Operations and Maintenance

• Expenses incurred for administration, supervision, operation, maintenance, preservation and protection of the institution’s physical plant (F.4)

• Normally includes:
  – Janitorial/housekeeping
  – Utilities
  – Grounds maintenance
  – Security/Public Safety
  – Environmental safety
  – Hazardous waste disposal

• Utility cost adjustment (UCA) of 1.3 points only Exhibit B schools (not UNC) – Will become available to all schools under Uniform Guidance
Library

• Expenses incurred for the operation of the library including the costs of books and library materials purchased for the library, less applicable credits (F.8)

• Standard Allocation based on FTE’s
The Administrative Components

- Administrative components (cost pools)
  - General administration (GA)
  - Departmental administration (DA)
  - Sponsored projects administration (SPA)
  - Student administration and services (SSA)

- Administrative components are capped at 26% of modified total direct costs (G.8)
General Administration

- Expenses incurred for the general executive and administrative offices and other expense of a general nature which do not relate solely to any major function of the institution (F.5)
- Normally includes:
  - Allocations from administrative offices that serve an entire university system, e.g. the University of North Carolina General Administration
  - Institutional administrative executive offices
  - Financial planning, budgeting, payroll, accounting
  - Safety and risk management
  - General counsel
  - Management information systems
  - Cross allocations from depreciation, interest and O&M cost pools
  - Administrative costs from the State Indirect Cost Allocation Plan (SICAP) (C.6)
Departmental Administration

- Expenses incurred for administrative and supporting services that benefit common or joint departmental activities or objectives (F.6)

- **The most difficult cost pool to develop!!**

- DA costs are not normally identified on university current fund statements

- Cross allocations from depreciation, interest, O&M, and GA cost pools
Department Administration

- Composed of:
  - Academic deans’ offices (limited to costs associated with administrative activities) (F.6.a(1))
  - Academic department and division salaries and fringe benefits attributable to administrative work (F.6.a(2))
    - Includes bid and proposal effort
    - Limited to 3.6% of department MTDC of faculty and professional personnel conducting research and/or instruction
    - 3.6% limit does not apply to professional business or administrative officers
  - Other administrative and supporting costs are allowable provided they are treated consistently in like circumstances (includes secretarial and clerical salaries, administrative officers and assistants, travel, office supplies, etc.) (F.6.b)
Sponsored Projects Administration

- Expenses are limited to those incurred by a separate organization established primarily to administer sponsored projects. Includes grant and contract administration, special security, purchasing, personnel, etc. (F.7)

- Cross allocations from depreciation, interest, O&M, and GA cost pools

- SPA is allocated to the functions performing sponsored projects based on MTC of the sponsored projects

  ➢ Usually includes:
    • Organized Research
    • Sponsored Instruction
    • Other Sponsored Activity
Student Administration and Services

- Expenses incurred for the administration of student affairs and for services to students including dean’s of students, admissions, registrar, counseling and placement, student advisors, student health and infirmary services, catalogs and commencements and convocations (F.9)

- Cross allocations from depreciation, interest, O&M, and GA cost pools

- Per A-21 - shall normally be allocated 100 percent to the Instruction function
What is a Space Survey?

- The space survey is the process of assigning institutional space into OMB Circular A-21 functional categories based on space use (E.2.d(3))

- The results are used to calculate the percentage of space that is used to support Organized Research and support the subsequent allocation of space related costs to Organized Research

- Used to allocate Building and Equipment Depreciation, Interest and O&M, i.e. all the “F” components except Library
The F&A Rate Calculation Process

Audited Financial Statements → Total Costs → Adjustments & Transfers → Review for Unallowable Expenses Applicable Credits → Assign Expenses to F&A Pools and Direct Bases → F&A Costs Pools:
- Depreciation
- Operations & Maintenance
- General Administration
- Departmental Administration
- Sponsored Program Admin.
- Library
- Student Admin. & Services

Allocations

MTDC Exclusions:
- Capital Expenses
- Subcontracts >$25k
- Scholarships/Fellowships
- Patient Care Costs
- Tuition Expenses
- Rental Costs

Other Exclusions:
- Cost of Goods Sold

Direct Cost Bases:
- Instruction and Dept. Research
- Organized Research
- Other Sponsored Activities
- Other Institutional Activities
- Other Special Direct Bases

<table>
<thead>
<tr>
<th>F&amp;A Costs</th>
<th>Major Functions</th>
<th>Distribution Base</th>
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<tbody>
<tr>
<td>X</td>
<td>Instruction &amp; Department Research</td>
<td>XX</td>
</tr>
<tr>
<td>X</td>
<td>Organized Research</td>
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<tr>
<td>X</td>
<td>Other Sponsored Activities</td>
<td>XX</td>
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<tr>
<td>X</td>
<td>Other Institutional Activities</td>
<td>XX</td>
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</table>
Other F&A Rate Proposal Issues

- The proposal and supporting documentation becomes the basis for negotiating the institution’s F&A rate
- Standard format required by A-21, Appendix C (G.12)
- Certifications by VP or CFO required (K)
- Base period normally coincides with fiscal year
- Cost analysis study for allocation (E.2.d(3))
- Negotiated rates in effect at the time of the initial award shall be used throughout the life of the sponsored agreement (G.7)
- Disclosure Statement if aggregate > $25 million (C.14)
Where/When Do I Submit the Proposal?

The proposal is submitted to the either the Department of Health and Human Services (DHHS)-Cost Allocation Services (CAS) for DHHS cognizant schools or to the Office of Naval Research (ONR) for the Department of Defense (DOD) cognizant schools (G.11)

• DHHS-CAS
  – DCA Best Practices Manual For Reviewing College and University Long-Form University Facilities & Administrative Cost Rate Proposals

• Office of Naval Research
  – Reviews conducted by (DCAA) Defense Contract Audit Agency

• Usually due 6 months after the end of the base year
Applying the F&A Rate – Problem 1

- F&A Rate = 40%
- Research project budget for direct costs = $125,000
- Item of equipment included in direct costs = $25,000 (only item excluded from the F&A base)
- What is total cost of the project?

\[
\text{MTDC} = \text{Total direct costs} - \text{exclusions} \\
\text{MTDC} = $125,000 - $25,000 = $100,000
\]

\[
\text{F&A} = \text{MTDC} \times \text{F&A rate} \\
\text{F&A} = $100,000 \times 40\% = $40,000
\]

\[
\text{Total cost} = \text{Total direct costs} + \text{F&A costs} \\
\text{Total cost} = $125,000 + $40,000 = $165,000
\]
Applying the F&A Rate – Problem 2

- F&A Rate = 58%
- Research project budget for direct costs = $250,000
- Subcontract costs = $75,000
- What is total cost of the project?

MTDC = Total direct costs - exclusions
MTDC = $250,000 - exclusions
MTDC = $250,000 - ($75,000 - $25,000)
MTDC = $250,000 - $50,000 = $200,000

F&A = MTDC x F&A rate
F&A = $200,000 x 58% = $116,000

Total cost = Total direct costs + F&A costs
Total cost = $250,000 + $116,000 = $366,000
Applying the F&A Rate - Problem 3

- PI on NSF grant to re-budget $150,000 in renovation monies into equipment
- F&A rate = 58%
- How much is available for equipment purchase?

Total available = total direct + total F&A

Total available = (MTDC + exclusions) + (MTDC x F&A rate)

$150,000 = (0 + equipment) + (0 \times 58\%)

$150,000 = equipment + 0

Equipment = $150,000
Applying the F&A Rate – Problem 4

• PI on NSF grant to re-budget $150,000 in renovation monies into personnel costs
• F&A rate = 50%
• How much is available for personnel costs?

Total available = total direct + total F&A

Total available = (MTDC + exclusions) + total F&A

Total available = (MTDC + exclusions) + (MTDC x F&A rate)

$150,000 = (personnel + 0) + (personnel x 50%)

$150,000 = (personnel x 1) + (personnel x 0.50)

$150,000 = personnel x (1 + 0.50)

Personnel = $150,000 / 1.50

Personnel = $100,000
Applying the F&A Rate – Problem 5

- Total grant available = $800,000
- F&A rate = 54%
- Tuition remission = $5,000; Subcontracts = $29,000; one piece of equipment = $21,000
- How much is available for direct costs?

\[
\text{Total available} = \text{total direct} + \text{total F&A} \\
\text{Total available} = (\text{MTDC} + \text{exclusions}) + (\text{MTDC} \times \text{F&A rate}) \\
\$800,000 = (\text{MTDC} + \$5000 + \$4000 + \$21,000) + (\text{MTDC} \times 54\%) \\
\$800,000 - \$30,000 = (\text{MTDC} \times 1) + (\text{MTDC} \times 0.54) \\
\$770,000 = \text{MTDC} \times (1 + 0.54) \\
\text{MTDC} = \$770,000 / 1.54 = \$500,000 \\
\text{Total directs} = \text{MTDC} + \text{exclusions} \\
\text{Total directs} = \$500,000 + 30,000 = \$530,000
F&A Waiver Policy
F&A Exceptions/Waivers

- The University’s Facilities and Administrative (F&A) policy states that all grants, contracts, and other sponsored agreements accepted by the University will be charged the maximum allowable federally negotiated F&A cost rate.
- For non-profit organizations and some federal programs, the University will accept published policies that limit indirect costs. These published policies must accompany the RAMSeS proposal.
- The University will not accept a corporate/for-profit company’s published policies because a subsidy of any cost of the project would constitute a use of public funds for private benefit and would be an improper use of university resources.

A decision tree is provided on our website that illustrates whether an F&A exception/reduction form is needed.

The F&A Waiver forms have been updated and are now PDF fillable.
*For NIH SBIR/STTR Phase 1 – F & A costs are waived by the Vice Chancellor of Research. No waiver form is required.*
F&A Waivers – Form 1

• When requesting an F&A waiver for corporate/for-profit funding (Form 1), the policy and form require that the requesting department/center/institute fund the difference in F&A provided and the amount the University would receive if the standard F&A rate were used. An appropriate Chartfield string be included on the form.

• Exception to the F&A policy for corporate/for-profit funding is Phase I SBIR/STTRs. If the University is asked to be a subcontractor on a Phase I SBIR/STTR, then the F&A is automatically waived to 0% for these projects only.
University of North Carolina at Chapel Hill
Facilities & Administrative (F&A) Rate Reduction Request
Use for For. Profit Funding Sources
Once completed and signed by all parties, please attach your form to the appropriate RAMSeS record.

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<tr>
<th>Request Date:</th>
<th>ePFE:</th>
<th>Sponsor Due Date:</th>
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<td>Principal Investigator</td>
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<td>Sponsor</td>
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<td>Sponsor Program (if applicable)</td>
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Cost of Project at Carolina F&A Rate

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<th>Direct Costs Initial Year:</th>
<th>Direct Costs All Years:</th>
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<th>Full Carolina F&amp;A Rate:</th>
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<td>Total Amount To Be Lost by this Reduction (All Years):</td>
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| Proposed F&A Rate: |

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<th>Internal Funding Sources</th>
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Total (must equal - total amount to be funded by department/school above) $0.00

Comments/Additional Information

Department Chair/Center Director Approval
(Signature and Printed Name)

Dean or Vice Chancellor of Research
(Signature and Printed Name)

Assoc. Vice Chancellor of Research/Director
Office of Sponsored Research
(Signature and Printed Name)

Reset Form  Print Form
F&A Waivers – Form 2

Form 2 must include a clear and complete explanation as to why the proposed project costs should be subsidized by the University through the granting of a reduction of F&A. Examples include, the project supports community engagement, or the nature of the work involved does not place a burden on the infrastructure of the university.
Form 2

Facilities & Administrative (F&A) Rate Reduction Request
For Non Profit Funding Sources

Once completed and signed by all parties, please attach your form to the appropriate RAMSe5 record.

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Please justify this request of an F&A Rate lower than UNC's established rate:

Department Chair/Center Director Approval (Signature and Printed Name)

Dean or Vice Chancellor of Research (Signature and Printed Name)

Assoc. Vice Chancellor of Research/Director Office of Sponsored Research (Signature and Printed Name)
Thank You to the University of Virginia

This Presentation based on:

Understanding F&A Rates
Sharon Brooks
&
Susan Herod
Assistant Comptroller for Financial Analysis

October 16, 2013