Facilities & Administrative Costs: Balancing Sponsor Requirements and Institutional Needs

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A Duck by Any Other Name ...

- Facilities and Administrative Costs
- F&A
- Indirect Costs
- Indirects
- Overhead
- Administrative Overhead
- Institutional Costs

... Is Still a Duck
Defining F&A

“Agency-wide costs that cannot be reflected in the program budget but are required just to keep the doors open” (Karsh & Fox, 2009).

“Allows a project to bear a portion of the administrative costs ... These costs are not directly attributable to the project but can be allocated to it based on the notion that the project should bear some of the costs of the host organization” (The Foundation Center, 2004).

Direct Costs Vs. Indirect Costs

**Direct Costs**
Expenses that can be identified and assigned to a specific research project:

- Salaries
- Equipment
- Supplies
- Travel

**Indirect Costs**
Costs allocated based on derived benefit to the research project:

- Utilities
- Research Administration
- Security
- Maintenance
A Little History

1947 – Office of Naval Research started reimbursing for institutional costs.


1996 – “In an effort to clarify the misconception that indirect costs are not real costs in educational institutions, the Office of Management and Budget changed the term to facilities and administrative costs” (Case, 2015).

2014 – The various circulars addressing F&A were consolidated into the OMB Uniform Guidance establishing one document for all cost principles.

Regulatory Information – Federal Funding

**Educational Institutions**

Previously – OMB Circular A-21
Currently – OMB Uniform Guidance - Part 200, Appendix III

**Nonprofits**

Previously – OMB Circular A-122
Currently – OMB Uniform Guidance - Part 200, Appendix IV

**State and Local Governments**

Previously – OMB Circular A-87
Currently – OMB Uniform Guidance - Part 200, Appendix VII

**Hospitals**

Previously – OASC-3
Currently – 45 CFR Part 75 Appendix IX

**For-Profit Organizations** – FAR Part 31, Subpart 31.2
Regulatory Information – Non-Federal Funding

Examples of Non-Federal Funding

- Foundations
- State & Local Government
- For-Profit
- Internal Organizations

Pretty Much No Standard Regulations

- Sometimes federally negotiated F&A rate is accepted
- Sometimes adjustments made to reflect true cost of research
- Sometimes sponsors have their articulated guidelines
- Sometimes F&A is capped or excluded

F&A Rate Determination

- F&A rates are determined through negotiation with the federal government.
- No negotiated rate? Rate of 10% of MTDC is used.
- The agency to whom an institution submits its proposal is that institution’s cognizant agency.
- The cognizant agency is determined by which awarding agency provides the most federal funding.
Cognizant Agencies

1. Department of Health and Human Services (DHHS)
2. Department of Defense, Office of Naval Research (DOD)

* No funding through either? The default is DHHS.

F&A Rate Negotiation

Long Form
F&A Rate Negotiation – Long Form

F&A Research Rate = \( \frac{\text{Costs Pools Assignable to Research}}{\text{Modified Total Direct Costs (MTDC)}} \)

Cost Categories (Pools)

**Facilities Costs**
- Depreciation of buildings and equipment
- Operation and maintenance expenses
- Library costs
- Interest on debt for capital projects

**Administrative Costs**
- General administration
- Department administration
- Sponsored projects administration
- Student administration and services
Facility Costs - Space Use

Institutions must have supporting documentation for the allocation of costs that benefit research.

Space use surveys identify how space is used to determine how many square feet can be assigned to benefiting activities.

Benefiting Activities Include:
- General Administrative
- Facilities
- Instruction
- Organized Research
- Other Research Activities
- Student Services
- Other Organizational Activity

Facility Costs - Space Use Example

Your Facility = 1000 square feet (sqf)

Space use survey shows each activity as follows:
- General Administrative – 85 sqf/1000 sqf = 8.5% of the facility
- Facilities – 115 sqf/1000 sqf = 11.5% of the facility
- Instruction – 400 sqf/1000 sqf = 40% of the facility
- Organized Research – 400 sqf/1000 sqf = 40% of the facility

40% of all facilities expenses can be allocated to research.
Facilities Costs - Depreciation

Institution Buildings
- Construction costs
- Improvements
- Fixed equipment

Equipment
- Nonexpendable
- Tangible
- Life of more than 1 year
- Valued over $5,000

Depreciation is the pattern of diminishing value as an asset ages.

Depreciation values must match the institution’s financial statements.

Internal Revenue Service has a table of the standard lives for assets.

Facilities Costs – Operations & Maintenance

Costs associated with upkeep of the institution’s buildings, mechanical systems and equipment.

Examples
- Utilities
- Janitorial services
- Repairs
- Physical plant management
- Police
- Shipping and receiving
## Facilities Costs – Library Costs

Library costs can be allocated based on the institution space use survey or based on a library study detailing users such as students, faculty, staff, etc.

**Examples**
- Salaries for library personnel
- Operating expenses
- Books

## Facilities Costs – Interest

Interest incurred against debts for:
- Buildings
- Equipment
- Capital improvements
### Cost Categories (Pools)

#### Facilities Costs
- Depreciation of buildings and equipment
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#### Administrative Costs
- General administration
- Department administration
- Sponsored projects administration
- Student administration and services

### Administrative Cost Cap

- In 1991, OMB Circular A-21 placed a limit of 26% for the cost recovery associated with the administrative pool.
- This limit remains in effect within Uniform Guidance.
Administrative – General

Executive management and administration of the institution

Examples
- Office of the President or Chancellor
- Accounting
- Human Resources
- Risk Management
- Legal
- Information Technologies

Administrative – Department

Dean’s offices, academic departments, divisions

Examples
- Personnel in these offices unless direct charged to a project*
- Office supplies
- Postage
- Telephone services
- Memberships
Administrative – Department

Dean’s offices, academic departments, divisions

*Personnel may be direct charge to a project if:
  • Services are integral to the project
  • Individuals specifically identified with the project
  • Position costs are included in the budget
  • Prior written approval from the funding agency

Administrative – Sponsored Projects

Offices that Administer Sponsored Projects

Examples
  • Pre-award
  • Post-award
  • Centralized offices for
    • Proposal writing
    • Editing
    • Graphics

Costs can include:
  • Personnel
  • Operations
  • Travel
Administrative – Student

Only those costs associated with graduate students working on research projects.

F&A Rate Formulas – Long Form

\[
\text{F&A Research Rate} = \frac{\text{Costs Pools Assignable to Research}}{\text{Modified Total Direct Costs (MTDC)}}
\]

\[
\text{MTDC} = \text{All Sponsored Activity - Exclusions}
\]
All Sponsored Activity ...

Everything that is direct charged to a research project:

• Salaries
• Benefits
• Materials
• Supplies
• Equipment
• Travel
• Costshare

... Except

Exclusions

• Equipment
• Capital Expenditures
• Patient Care Costs
• Tuition
• Space Rental
• Scholarships
• Fellowships
• Subcontract amounts over $25k
F&A Rate Negotiation

Simplified Method / Short Form

F&A Rate Formulas – Simplified Method

F&A Research Rate = F&A Costs of the Institution
                  Modified Total Direct Costs (MTDC)

OR

F&A Research Rate = F&A Costs of the Institution
                  Salaries & Wages Base
F&A Costs of the Institution

Include:
• General Administration & General – Executive offices
• Operations & Maintenance – Physical plant and depreciation
• Library Costs
• Departmental Administration – 20% of the salaries of deans and department heads

Cannot include:
• Student Administration
• Student Activities
• Financial Aid & Scholarships

Modified Total Direct Costs

MTDC = All Sponsored Activity - Exclusions
Salaries & Wages Base

Base = All Salaries – Salaries in the F&A Costs*

* Can still be used to calculate the F&A on a specific project

Types of Federal F&A

Predetermined Rate

- Determined via the proposal
- Audited by the cognizant agency
- Finalized through negotiation
- F&A rate agreement is signed by both parties
- Proposals might be submitted annually, but generally every 2-4 years
- The negotiated rate is set for the predetermined period
Types of Federal F&A

**Fixed with Carry-Forward**
- Predetermined rate is negotiated
- Adjustments are made year-to-year based on the institution’s actual rate

**Provisional Rate**
- Established when an institution has no cost history
- It is a temporary rate
- Can be adjusted at any time by the cognizant agency
Types of Federal F&A

**Negotiated Lump Sum**
- Rare
- Fixed amount
- Usually for self-contained, off-campus activities
- The amount is determined by totaling all the F&A costs related to the support activity

Exceptions to the F&A Rate

**Sponsor Limitations**
- Stated in the RFP
- Legislated
- Examples
  - NIH training grants limit is 8%
  - Department of Agriculture is 25%
- Limitations are now regulated by Uniform Guidance
Exceptions to the F&A Rate

**Clinical Trials**
- Involve hospital and patient care costs
- Usually applied to total direct costs (TDC)
- Bulk of research occurs in non-university space

**Subcontracts**
- Encourages collaboration
- Subrecipient is defined as an institution that contributes substantive effort
- Prime awardee can charge full F&A for the first $25,000
- Subrecipient costs over $25,000 do not incur F&A
Cost Accounting Standards

1. **Consistency in estimating, accumulating, and reporting costs** – Estimating costs for a proposal must be consistent with the institution’s cost accounting practices.

2. **Consistency in allocating costs incurred** – Must treat like costs as either a direct or an indirect cost within and across all academic departments.

3. **Accounting for unallowable costs** – Unallowable costs must be excluded from proposals, awards, and the F&A rate calculations.

4. **Cost accounting period** – The institution must use its fiscal year as the cost accounting period.

Unallowable Costs

- Advertising
- Alumni Activities
- Commencement Costs
- Entertainment Expenses
- Fines and Penalties
- Housing and Personal Living Expenses
- Lobbying
- Alcoholic Beverages
- Bad Debts
- Donations and Contributions
- Fund Raising
- Personal Use
- Memberships in Social Organizations
- Marketing
General Provisions for Selected Items of Cost Uniform Guidance

**Reasonableness** – “At the time the cost was incurred, a prudent person would have made a similar decision” (Case, 2015).

**Allocability** – Goods or services are charged to the project in proportion to the benefit received by the project

**Consistent Treatment** – Like costs are treated the same by all departments at the institution

Waivers

- A request that an institution subsidize a research project with other university funds
- Other resources have to absorb these costs
Under-Recovery of F&A Costs

• Institution costs that are not borne by a project
• Generally caused by a reduction in the full F&A rate
• Under-recovered F&A costs might be used to meet a cost-share requirement
• Prior approval by the awarding agency is required

Effective F&A Rate

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\text{Effective F&A Rate} = \frac{\text{Total F&A Recovery}}{\text{Total Direct Research Expenses}}
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Questions?

References


