

Understanding F&A Rates

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January 23rd, 2018



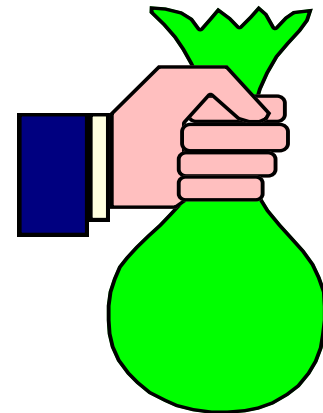
Why an F&A Cost Rate?

- 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 200 App III C.11.a(1), OMB Circular A-21)



What is the F&A Cost Rate?

- A single number that reimburses the institution for the use of:
 - Buildings
 - Equipment
 - Interest on Debt for Buildings
 - 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
- $\text{OR allocated pool costs} / \text{OR base direct costs} = \text{OR F\&A rate.}$

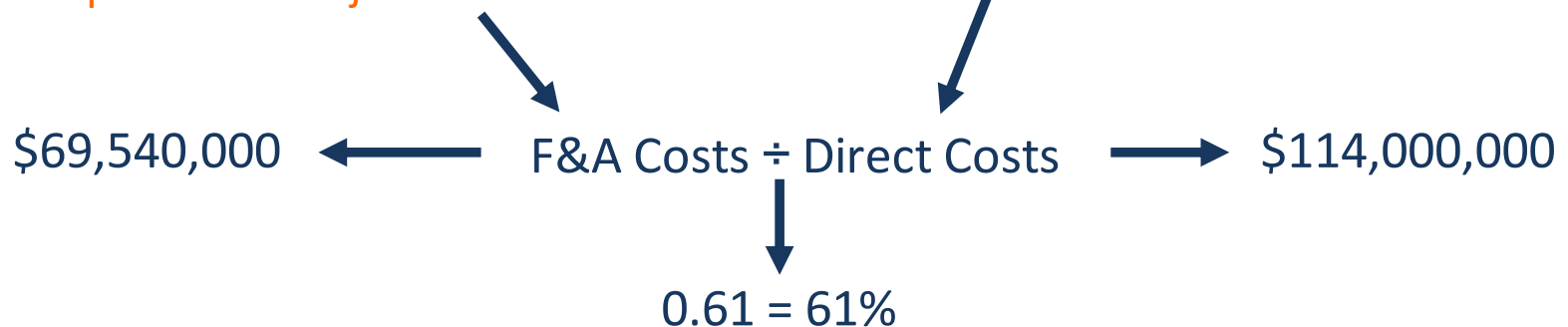
Calculation of the Facilities & Administrative Cost Rate (aka = Indirect Cost Rate)

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



Another Example

Calculate an OR rate:

$$\frac{\text{GA } (\$318,750) + \text{OM } (\$760,000)}{\text{Organized Research base}} = \frac{\$1,078,750}{\$3,600,000} = 29.97\%$$



Types of F&A Rates

- Negotiated lump sum for F&A *App III C.3*
- Predetermined rates - normally for 2-4 years *App III C.4*
- Fixed rates and carry forward provisions *App III C.5*
- Provisional and final rates *App III C.6*
- Simplified Method for Small Institutions (<\$10 million total direct cost in a year) *App III D*

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Current UVa F&A Rate Letter

COLLEGES AND UNIVERSITIES RATE AGREEMENT				
EIN: 54-6001796		DATE: 11/18/2016		
ORGANIZATION: University of Virginia Madison Hall P.O. Box 400210 Charlottesville, VA 22904-4210		FILING REF.: The preceding agreement was dated 06/13/2016		
The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.				
SECTION I: INDIRECT COST RATES				
RATE TYPES:	FIXED	FINAL	PROV. (PROVISIONAL)	PRED. (PREDETERMINED)
EFFECTIVE PERIOD				
TYPE	FROM	TO	RATE(%) LOCATION	APPLICABLE TO
PRED.	07/01/2015	06/30/2017	58.00 On-Campus	Organized Research
PRED.	07/01/2017	06/30/2018	61.00 On-Campus	Organized Research
PRED.	07/01/2018	06/30/2019	61.50 On-Campus	Organized Research
PRED.	07/01/2015	06/30/2017	54.00 On-Campus	Instruction
PRED.	07/01/2017	06/30/2019	56.00 On-Campus	Instruction
PRED.	07/01/2015	06/30/2017	36.00 On-Campus	Other Sponsored Activities
PRED.	07/01/2017	06/30/2019	38.00 On-Campus	Other Sponsored Activities
PRED.	07/01/2015	06/30/2019	26.00 Off-Campus	All Programs
PROV.	07/01/2019	Until Amended		Use same rates and conditions as those cited for fiscal year ending June 30, 2019.
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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
- IHE - Institutions of Higher Education

The Direct Cost Bases

The Direct Cost Bases

- Bases represent an institution's direct costs activities *App III A.1*:
 - Instruction and departmental research (IDR)
 - Sponsored instruction and training
 - Departmental research
 - **Organized research (OR)**
 - Research Training
 - Sponsored research
 - University research
 - **Other sponsored activities (OSA)**
 - **Other institutional activities (OIA)**

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The Direct Cost Bases

- *App III C.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

The Direct Cost Bases

- MTDC **excludes** 200.68
 - Sub-grant and subcontract costs over \$25,000
 - Equipment (capital equipment only)
 - Capital (buildings/renovations) expenditures
 - Patient care
 - Tuition remission
 - Scholarships and fellowships
 - Space rental costs
 - Participant support costs 200.75

The Direct Cost Bases

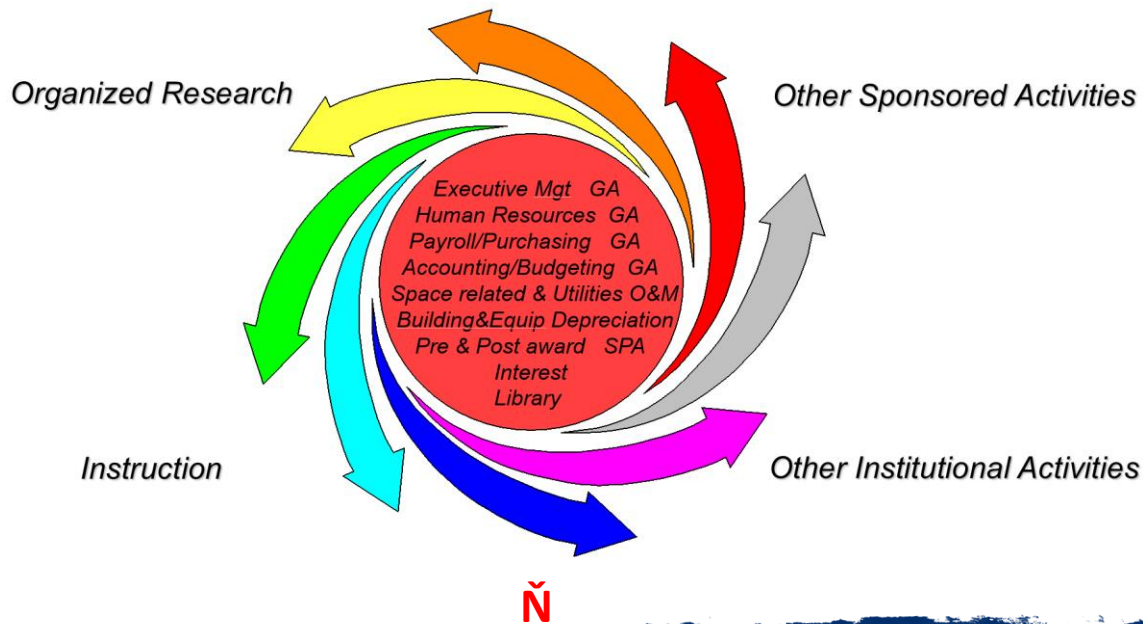
- Issues to consider
 - Unallowable costs *200.405(b)*
 - Cost overruns (CAS 9905.505)
 - Cost share or matching (CAS 9905.502)
 - Salaries over the NIH cap (NOT-CO-16-059)
 - Research Training Grants *App III A.1.b(1)*
 - Applicable Credits *200.406*
 - Bases other than MTDC



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. *200.414 and App III A*



The Facilities Components

- Building depreciation pool
- Equipment depreciation pool
- 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 200.436, see also *App III B.2*.

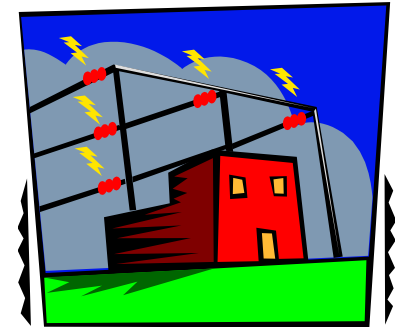


Interest on Debt

- Interest associated with certain buildings, equipment, and capital improvements are allowable **if they support sponsored agreements** 200.449 and App III B.3
 - 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 on or after July 1, 1982, costing \$10,000 or more, if the government agrees

Operations & Maintenance

- Expenses incurred for administration, supervision, operations, maintenance, preservation, and protection of the institution's physical plant *200.452* and *App III B.4*.
- Normally includes:
 - Janitorial/housekeeping
 - Utilities
 - Grounds maintenance
 - **Safety and risk management**
 - **Police and Security**
 - **Environmental safety**
 - **Hazardous materials disposal**



Library

- Expenses incurred for the operation of the library, including the costs of books and library materials purchased for the library, **less applicable credits** *App III B.8*
- Standard Allocation based on FTEs



The Administrative Components

- Administrative components (cost pools)
 - General administration and general expenses
 - Departmental administration
 - Sponsored projects administration
 - Student administration and services
- The combined total of Administrative components is **capped** **at 26%** of modified total direct costs *App III C.8*

General Administration and General Expenses

- Expenses incurred for the general executive and administrative office and other expenses of a general nature which do not relate solely to any major function of the institution *App III B.5*
- Normally includes
 - Allocations from administrative offices that serve an entire university system, e.g. California, North Carolina, Texas
 - Institutional administrative executive offices
 - Financial planning, budgeting, payroll, accounting
 - General Counsel
 - Management information systems
 - Cross allocations from depreciation, interest, and O&M cost pools
 - Admin costs from the SICAP 200.418

Departmental Administration (DA)

- Expenses incurred for administrative and supporting services that benefit common or joint departmental activities or objectives *App III B.6*
- The most difficult cost pool to develop
- DA costs are not normally identified on university current financial statements
- Cross allocations from depreciation, interest, O&M, and GA cost pools

Departmental Administration

Composed of:

- Academic deans' offices (limited to costs associated with administrative activities) *App III B.6.a(1)*
- Academic department and division salaries and fringe benefits attributable to administrative work
 - Includes bid and proposal effort
 - Limited to 3.6% of department MTDC of faculty and professional personnel conducting research and/or instruction *App III B.6.a(2)(a)*
 - 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.) *App III B.6.a(2)(b)*

Sponsored Projects Administration

- Expenses are limited to those incurred by a separate organization established primarily to administer sponsor projects. Includes grant and contract administration, special security, purchasing, personnel, etc. *App III B.7*
- Cross allocation 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

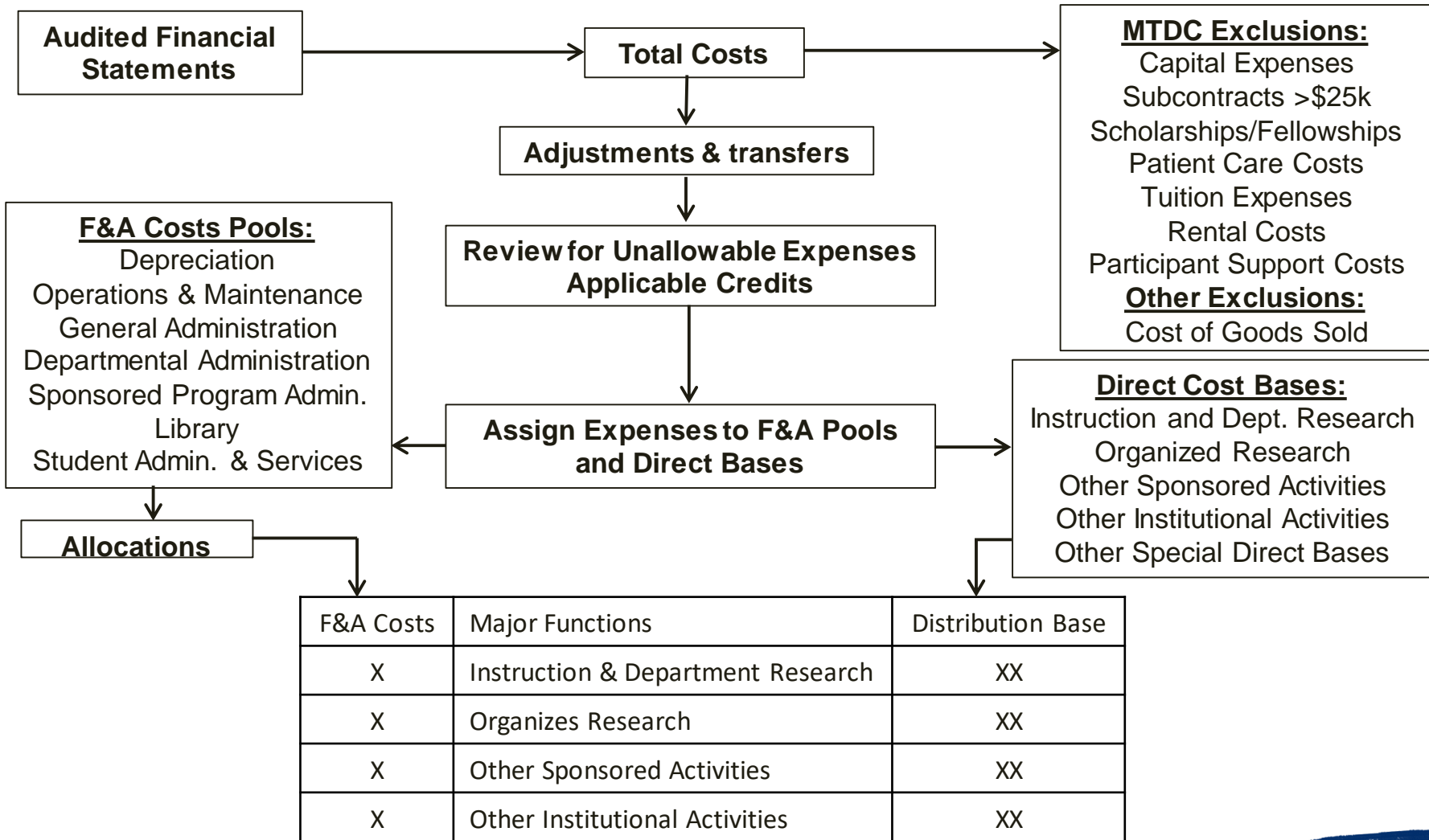
Student Administration and Services

- Expenses incurred for the administration of student affairs and for services to students, including deans of students, admissions, registrar, counseling and placement, student advisors, student health and infirmary services, catalogs, commencements, and convocations *App III B.9*
- Cross allocation from depreciation, interest, O&M, and GA cost pools
- Student Administration and Services shall normally be allocated 100 percent to instruction function *App III B.9.b*

What is a Space Survey?

- The space survey is the process of assigning institutional space into 2 CFR 200 functional categories based on space use *App III A.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



Sample Allocation & Rate Calculation

	Total Cost	Allocated O&M	Allocated GA	Total
O&M cost pool	\$10.00	-10.00	0.00	
GA cost pool	5.00	1.50	- 6.50	0.00
OR cost base	20.00	5.00	8.70	8.70
OSA cost base	15.00	3.50	7.80	6.30
		0.00	0.00	

Rate Calculation = Allocated Costs/Cost Bases

OR \$8.70/20.00 = 43.5%

OSA 6.30/15.00 = 42.0%

Actual Cost Allocations

**UNIVERSITY OF VIRGINIA
FYE JUNE 30, 2014
Stepdown Schedule**

Cost Group	Total Cost	LAND_IMP	BULD_DEP	EQP_DEP	INT	OM	GA	DA	SPA	STU_SVC	LIBRARY	Total
INDIRECT POOLS												
001 - Land Improvements	20,165,015	-20,165,015										
005 - Building Depr	58,935,711		-58,935,711									
010 - Equipment Depr	20,274,250			-20,274,250								
050 - Interest	18,574,763				-18,574,763							
100 - O&M	135,810,043	10,961,540	511,958	770,586	1,644,653	-149,698,780						
200 - GA	43,669,626		519,832	680,763		2,373,956	-47,244,177					
300 - DA	115,193,344		3,317,975	2,178,035	1,239,681	7,574,540	6,373,589	-135,877,164				
600 - SPA	10,682,261		91,357	83,291	3,629	490,216	591,044		-11,941,798			
700 - Student Services	52,880,022		2,265,975	1,671,581	31,222	3,380,355	2,925,826			-63,154,981		
800 - Library	36,346,811		2,732,103	707,110	841,472	7,673,727	2,011,050				-50,312,273	
DIRECT BASES												
900 - Instruction	354,882,000	1,652,091	18,313,926	5,495,960	7,222,731	38,918,208	19,635,457	93,313,463	249,094	63,154,981	42,106,547	644,944,458
910 - Research	123,373,250	124,280	9,438,076	5,944,889	6,126,444	21,283,744	6,826,188	28,584,524	8,719,197		2,658,430	213,079,022
920 - Other Sponsored Act	41,814,390	34,966	711,788	138,534	490,341	1,567,207	2,313,570	8,272,243	2,973,507		646,205	58,962,751
950 - Other Instit. Activ	118,697,072	7,392,138	21,032,721	2,603,501	974,590	66,436,828	6,567,453	5,706,934			4,901,091	234,312,328
Grand Total:	1,151,298,558	0	-0	0	0	-0	0	-0	0	0	0	1,151,298,558

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 *App III C.12*
- Certifications by VP or CFO required by *App III F.1 & 2*
- Base period normally coincides with fiscal year *App III B.1.e*
- Cost analysis study for allocation *App III A.2.d(3)*
- Negotiated rates in effect at the time of the initial award shall be used through the life of the sponsored agreement *App III C.7*
- Disclosure Statement if aggregate **>\$25Million 200.419**



When/Where to Submit the Proposal?

- The proposal is submitted to 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 *App III C.11*
- CAS-DHHS
 - DCA Best Practices Manual for Reviewing Institutions of Higher Education Long-Form Facilities & Administrative Cost Rate Proposals
<https://rates.psc.gov/fms/dca/Updated%202017%20CU%20Best%20Practices%20Manual.pdf>
- Office of Naval Research
 - Reviews conducted by Defense Contract Audit Agency (DCAA)
- 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?

MTDC = Total direct costs - exclusions
MTDC = \$125,000 - \$25,000 = \$100,000

F&A = MTDC x F&A rate
F&A = \$100,000 x 40% = \$40,000

Total cost = Total direct costs + F&A costs
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)

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

$$\$150,000 = \text{equipment} + 0$$

$$\text{Equipment} = \$150,000$$

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?

Total available = total direct + total F&A

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

$$\$800,000 = (\text{MTDC} + \$5,000 + \$29,000 + \$21,000) + (\text{MTDC} \times 54\%)$$

$$\$800,000 - \$30,000 = (\text{MTDC} \times 1) + (\text{MTDC} \times 0.54)$$

$$\$770,000 = \text{MTDC} \times (1 + 0.54)$$

$$\text{MTDC} = \$770,000 / 1.54 = \$500,000$$

Total direct costs = MTDC + exclusions

$$\text{Total direct costs} = \$500,000 + \$30,000 = \$530,000$$

Significant Issues Regarding Recharge Operations

Recharge Operations

- “Where it is determined that certain expenses are for the support of a service unit or facility whose output is susceptible of measurement on a workload or other quantitative basis, such expenses should be set aside as a separate cost grouping for distribution on such basis to organized research, instructional and other activities at the institution or within the department.”
App III A.2.c(3)
- “If directly related to a specific award . . . The cost of materials supplied from stock or services rendered by **specialized facilities** or other institutional **service operations**” . [may be included as direct costs to sponsored agreements] *200.413(b)*

2 CFR 200 App III B.6.b(1)

- “costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs. For example, salaries of technical staff, laboratory supplies . . . shall be treated as direct costs whenever identifiable to a particular cost objective. Direct charging of these costs may be accomplished through specific identification of individual costs to benefiting cost objectives, or through **recharge centers** or **specialized service facilities**, as appropriate under the circumstances.”

2 CFR 200.468

- “Does not discriminate against federal-supported activities of the institution, including usage by the institution for internal purposes.”
- “Is designed to recover only the aggregate costs of the services.”
- “The costs of the service shall consist normally of both its direct costs and its allocable share of all F&A costs.”
- Rates shall be adjusted at least biennially, and shall take into consideration over/under applied costs of the pervious period(s).

Other Recharge Center Key Points

- No profit – break-even operations - recover only cost
- No unallowable costs
- If over-charge, then must refund to every grant or lower next year's rate
- Depreciation is allowable
- Consistency, consistency, consistency
- Use a recognized method of computing actual costs
- Confirm to generally accepted cost accounting practices
- Service center, recharge center, specialized service facility

UG Procurement Rules

- In the UG, micro-purchases of \$3,000 or less do not require competition or a cost/price analysis, but must be distributed equitably among qualified suppliers (to the extent practicable). *200.320*
 - However, the National Defense Authorization Act (Public Law 114-328 12/23/16) increased the threshold for IHEs to \$10,000.
- Every procurement in excess of the Simplified Acquisition Threshold (\$150,000) must have a cost or price analysis performed, including contract modifications. *200.323*
 - The method and degree of analysis can vary given the situation but as a starting point you must make independent estimates before receiving bids or proposals.
- To paraphrase *200.402* through *200.405*, When charging expenses to a federal award, the costs must meet the criteria for being 1) allowable, 2) reasonable (does not exceed that which would be incurred by a prudent person), and 3) allocable.

Questions?

- Cost Analysis contact information
- Sara Tarkington st5h@Virginia.edu 982-2373
- John Wallace-Smith jaw3b@Virginia.edu 924-8928
- Our F&A website is at <http://www.virginia.edu/finance/finanalysis/overhead.html>
- Our Recharge Center websites are at
http://www.virginia.edu/finance/finanalysis/rev_gen_act.html
http://www.virginia.edu/finance/finanalysis/service_r.html
- If you want an electronic copy of the Uniform Guidance, just email me.