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Understanding Facilities and Administrative Costs

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Office of Research and Sponsored Programs

Understanding Facilities and Administrative Costs

Presented by Melissa Hodge-Penn,
Assistant Vice Chancellor for Research and Sponsored Programs
December 2, 2020

Objectives

- Why F&A
- Define F&A
- The difference between Direct and Indirect Cost
- The application of F&A for sponsored project budgets

Why an F&A Cost Rate?

- It is federal policy to provide for the reimbursement of facilities and administrative 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, UM)

Understanding F&A when Referring Budgets

- F&A (Facilities and Administrative) cost rates (also known as overhead or indirect costs) are established by negotiation with the U. S. Department of Health and Human Services and cover a specified period.
- These are costs that cannot be uniquely associated with a particular project but which are nonetheless incurred by the university due to the project. They include costs such as departmental accounting and clerical support, network support, equipment depreciation, building and facilities operation and maintenance, library, general and sponsored projects administration. These costs are budgeted and charged as a percentage of some of the direct cost elements.

Facilities and Administrative Cost (F&A)

Purpose:

F&A costs means those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

§200.56 Indirect (facilities & administrative (F&A)) costs

What is Facilities and Administrative Cost (F&A)

DEFINITION 2 CFR 200.56

...costs incurred for common or joint purpose... and not readily assignable...

Indirect costs...must be distributed...base[d on] relative benefits derived.



Commonly Used Terms and 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

What is F&A? 2 CFR 200 Appendix III

- Direct Costs are incurred in support of University of Mississippi's **major functions**, as defined in section A.1.:
 - a. Instruction **(A01)**
 - b. Organized research **(A02)**
 - c. Other sponsored activities **(A03)**
 - d. Other institutional activities **(A04)**

- All other costs are Indirect Costs. Indirect costs can benefit multiple functions or a single function.

What is F&A? 2 CFR 200 Appendix III

F&A Cost Rate is a single number that reimburses the institution for the use of:
Section B.

2. Depreciation (building and equipment)
3. Interest (for debt on buildings and equipment)
4. Operations and Maintenance
5. General Administration and General Expenses *
6. Departmental Administration Expenses *
7. Sponsored Programs Administration *
8. Library Expenses
9. Student Administration and Services *

* Defined as Administrative **A** in Section C.8. (26% cap). All others are Facilities **F**.

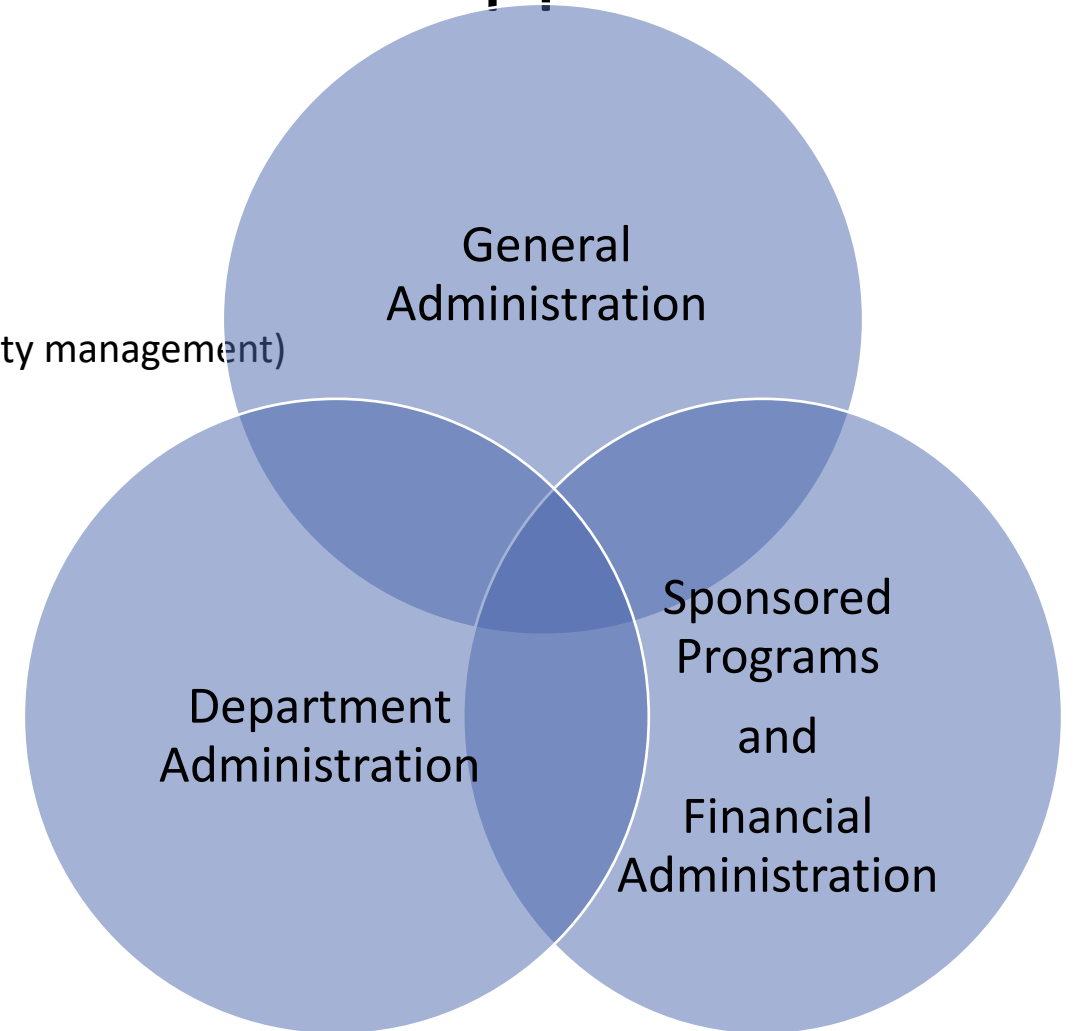
Administrative indirect costs for research cost pool are capped at 26% • That means any administrative (collectively) costs above 26% are unrecoverable • Administrative cap does not apply to non-research cost pools.



What is F&A? 2 CFR 200 Appendix III

Administrative Costs – why the Cap?

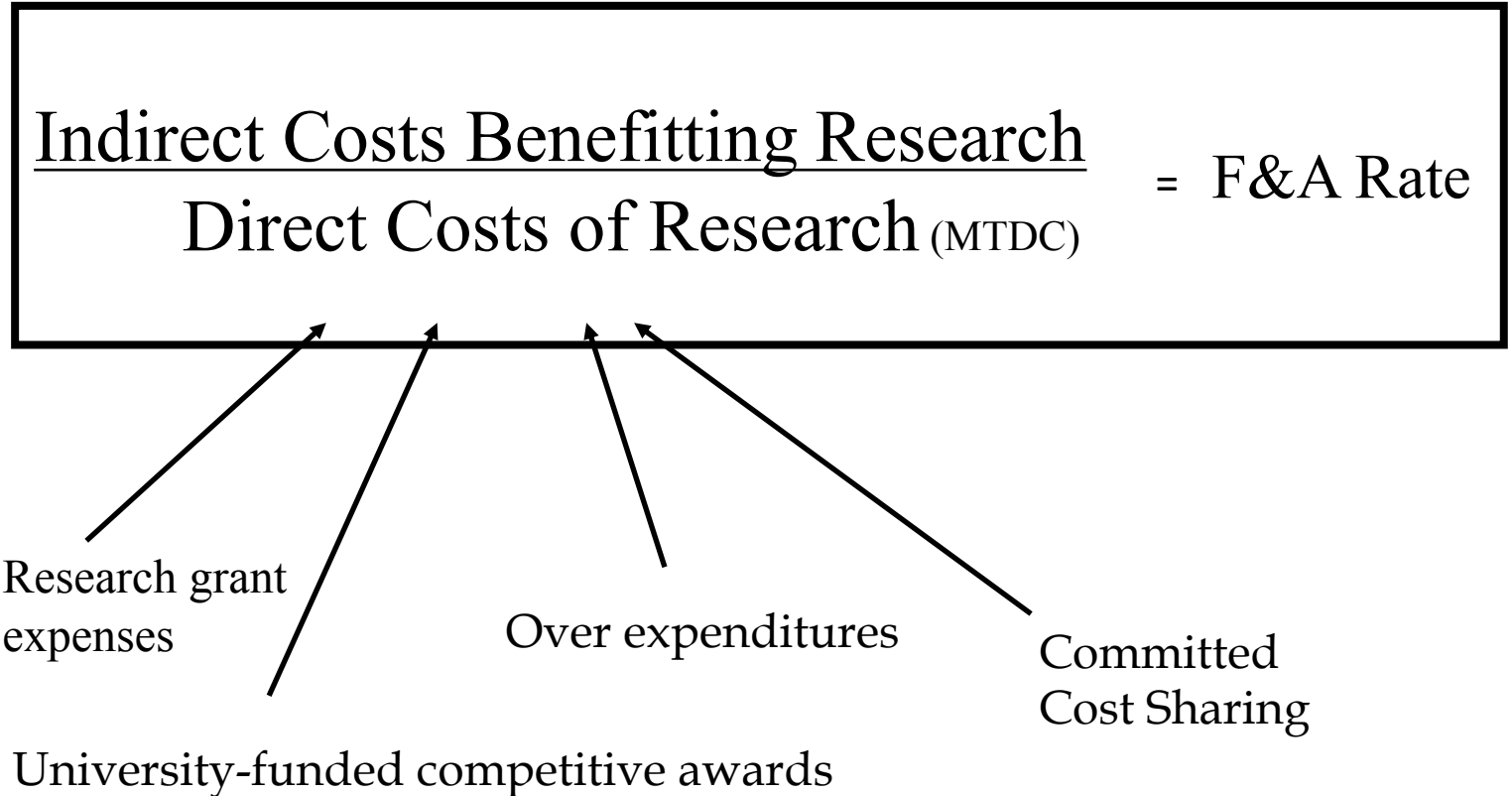
- Departmental Administration
 - Includes departmental costs, school admin costs (deans, facility management)
- General Administration & General Expense
 - President & provost offices
- Sponsored Projects Administration (ORSP)
 - Includes Accounting and Finance
- Student Services
 - Registrar, Bursar, Student Medical





Calculation of F&A Rate

- The ratio, expressed as a percentage of facilities and administrative cost pool and direct cost base.
- The cost pool is made up of all allocations from the administrative and facilities cost pools
- Pool costs/ base direct costs = OR F&A rate.
- Simply stated if the F&A rate is 46%:
 - For every \$1.00 spent on research or sponsored projects 46 cents of cost is incurred by the university



Calculations of F&A Rate Expressed Differently

Indirect Costs (F&A)

- Building Depreciation
- Equipment Depreciation
- Interest Debt
- Operations and Maintenance
- Library Support
- General Administration
- Departmental Administration
- Sponsored Project Administration (R&D, Pre/Post Award, Acct. & Finance, Research Compliance)

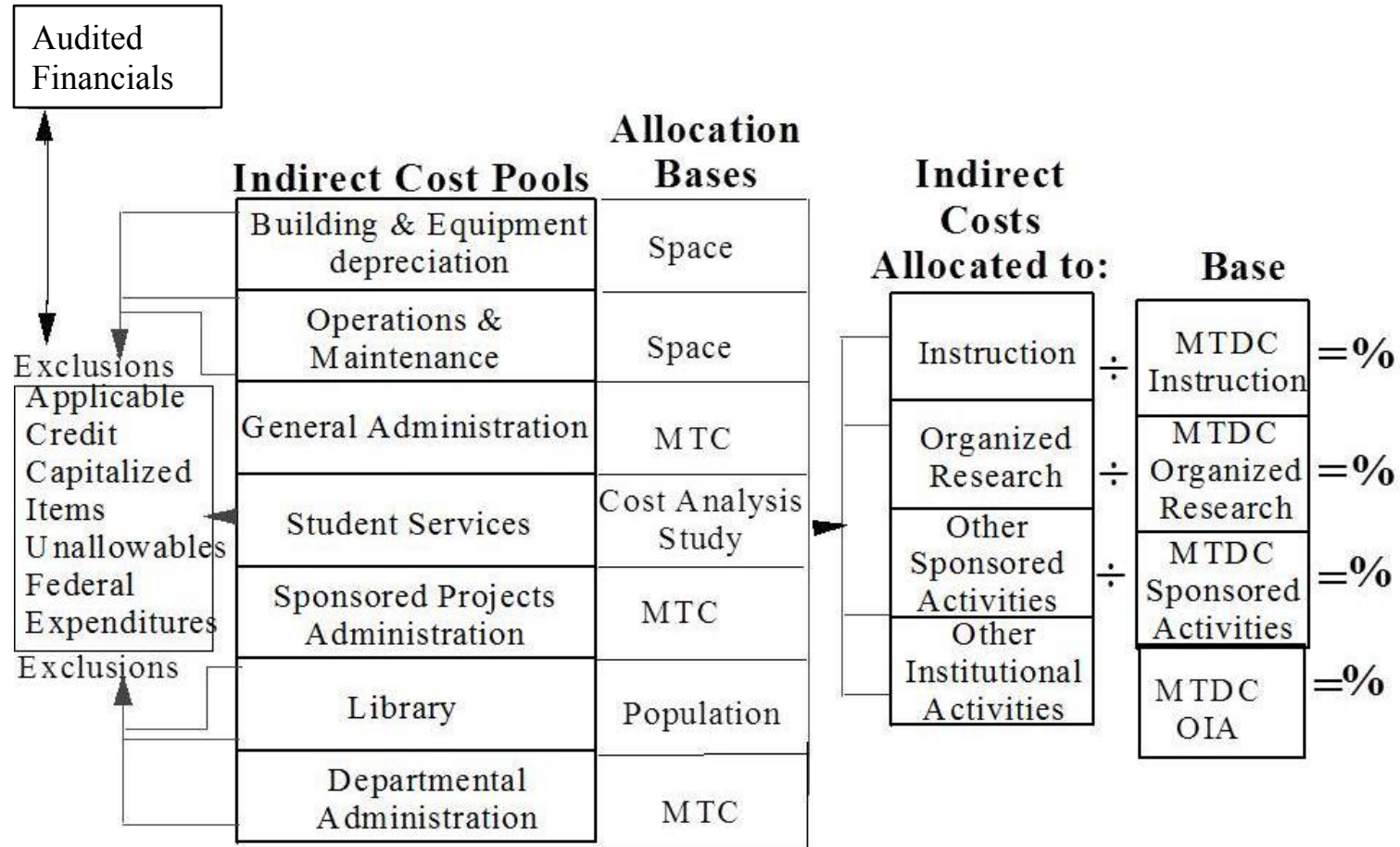
Direct Cost of Project

- Research Salaries & Fringes
- Participant Support
- Consultant Services
- Travel
- Technical Services
- Research Supplies
- Subcontracts up to \$25K
- Committed Cost Sharing

Indirect Costs (F&A) / Direct Costs = F&A Cost Rate



Finance and Administration Magic





UM's F&A Rate Structure

Rates through June 30, 2020:	On-campus	Off-campus	Documented Other
Research	46%	26%	Always refer to documented agency guidance (to include foundations, private industry, etc.)
Instruction	50%	26%	
Other Sponsored Activity	30%	23%	

Direct vs Indirect Costs

Direct Costs

- Costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity; or
- That can be directly assigned to such activities relatively easily with a high degree of accuracy

- Examples of Direct Costs:

Salary of researcher (including benefits costs)

Laboratory supplies purchased for projects

Technician

Direct vs. Indirect Costs

Indirect Costs or F&A

- “Costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.”
- Examples of Indirect Costs:

Facilities: Operation and maintenance expenses,

Administrative: Library, general administrative expenses like Payroll, Procurement, OSP, Grants Accounting, President, Provost as well as Dept. administrative expenses: Dept. staff, Deans, Chairs, telephones, pens, paper, etc.

Core Principles for Determining Costs



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Determining Chargeable Costs

REASONABLE

- Ordinary and necessary
- Support operation
- Contribute to performance

ALLOCABLE

- Tied to cost objective, contract, service
- Proportional to benefits

ALLOWABLE

- Allowability determined by OMB Guidelines & grant provisions

Core Principles for Determining Costs

Reasonableness

A cost may be considered reasonable if the nature of the goods or services acquired or applied, amount involved; reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.



Reasonable Costs Examples

- Airfare – economy class is reasonable
- A leather chair for \$1,200.00, even if furniture is in the approved budget, is unreasonable



Allocability

A cost can be allocable as a direct or an indirect cost. It is allocable as a direct cost if the goods and services provided are assignable in accordance with the relative benefits received:

1. Is the cost benefiting the sponsored project?

Example

- Animals may be an allowable cost, but if the project doesn't use animals, it is not an allocable cost

Allocability

2. If a cost benefits both the sponsored agreement and other work, it must be allocated in appropriate proportions.

Example

- An item of equipment costing \$50,000 is used 10% of the time for one project and 90% of the time for another project. The project that uses the equipment 10% should be charged 10,000 while the project that uses the equipment 90% of the time should be charged \$40,000.

Allocability

3. Project expenditures must be supported by evidence of direct benefit to the project.

Example:

- For supplies and expenses, allocability is documented through purchase/payment records or other files, and/or certification of expenditures

Core Principles for Determining Costs

Consistency

4. Is the cost incurred for the same purpose, in like circumstances, treated consistently as either direct or F&A (indirect) cost?

Examples:

- A lab always charging customers the same amount using the same account code is consistent.
- Copying costs charged directly in one division of the department and charged as an F&A cost item in another division of the department is inconsistent.

Core Principles for Determining Costs

Allowability

5. Is the cost in compliance with the terms and conditions of the award, the sponsoring agency, Uniform Guidance, and University policy?

Example:

➤ General-purpose equipment is not allowable while scientific equipment is allowable.

MTDC Defined

200.68 Modified Total Direct Cost (MTDC).

- *MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award).*
- MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000.
- Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

MTDC Defined

- S&W, Benefits, Materials, Supplies, Services, Travel, Sub-awards up to first \$25k,
- Exclusions consist of:
 - Subcontract Expenses (in excess of \$25K);
 - Capital Expenditures;
 - Patient Care; (Often recognized as human subject cost)
 - Participant Support Costs; and
 - Rental costs, tuition remission, scholarships and fellowships

F&A Rate Changes

- **Indirect (F&A) costs -200.414**

- (c) Federal Agency Acceptance of Negotiated Indirect Cost Rates
 - The negotiated rates **must** be accepted by all federal agencies.
 - A Federal agency may use a rate different from the negotiated rate for a class of federal awards or a single federal award only **when required by federal statute or regulation**, or when
 - Approved by a federal agency head or delegate based on documented justification.
 - Agencies must notify OMB of any exceptions approved by the agency head.

F&A Rate Changes

Indirect (F&A) costs -200.414

- (f) any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-federal entities described in Appendix VII to part 200 –State and Local governments Indian Tribe Indirect Cost Proposals, paragraph D.1.b.
 - May elect to charge a de minimis rate of 10% of Modified total direct costs (MTDC) which may be used indefinitely.
 - As described in 200.403 factors affecting allowability of costs, costs must be consistently charged as either indirect or direct costs, but may not be double charged or inconsistently charged as both.
 - If chosen, this methodology once elected must be used consistently for all federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time.

200.331 Requirements for pass-through entities.

All Pass-through entities must.....

(a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes

- 1) (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per 200.414 Indirect (F&A) costs).

An approved federally recognized indirect cost rate negotiated between the subrecipient and the Federal Government or, if no such rate exists, either a rate negotiated between the pass-through entity and the subrecipient (in compliance with this part), or a de minimis indirect cost rate as defined in 200.414 Indirect (F&A) costs, paragraph (f) of this part.



Frequently Asked Questions

Question: Pass through entities are expected to honor a subrecipient's negotiated F&A rate agreement, or use a 10% MTDC de minimis rate, or negotiate an F&A rate with the subrecipient. Is it acceptable to require a subrecipient to accept a rate lower than 10% MTDC via negotiation, or in lieu of their negotiated F&A rate? If the subrecipient requests to establish a rate via negotiation, does the pass through entity have to establish the rate via negotiation?

Answer: If the subrecipient already has a negotiated F&A rate with the federal government, the negotiated rate must be used. It is not permissible for pass through entities to force or entice a subrecipient without a negotiated rate to accept less than then de minimis rate.



Frequently Asked Questions

Question: Is there a limit on the number of layers of subrecipients at which the requirement to pay indirect costs is no longer applicable? For example, a state may pass-through federal grant funds to a local government, the local government may pass all or some of the funds through to a local non-profit, which then utilizes the services of other non-profit providers as subrecipients.

Answer: No. There is no limit under Uniform Guidance, but the federal award may have a limit.

Frequently Asked Questions

Question: What should I do if my pass-through entity won't honor my entity's federally negotiated indirect cost rate agreement?

Answer: You may wish to remind your pass-through entity of their obligation under the uniform guidance in part 200.331. (Basically, they are required to accept the negotiated rate)

Types of Indirect Rates

- Provisional: *“A provisional indirect cost rate is a temporary rate established for a given period of time to permit funding and reporting of indirect costs pending establishment of a final rate for that period.”*
- Predetermined: "Predetermined rate" means an indirect cost rate, applicable to a specified current or future period, usually the governmental unit's fiscal year. This rate is based on an estimate of the costs to be incurred during the period.
- Fixed Rates with Carry-Forward: *“an indirect cost rate which has the same characteristics as a predetermined rate, except that the difference between the estimated costs and the actual costs of the period covered by the rate is carried forward as an adjustment to the rate computation of a subsequent period.”*



Fixed Rates for the Life of the Sponsored Agreement

Appendix III C.7

-Except as provided in paragraph (c)(1) of §200.414 Indirect (F&A) costs, Federal agencies must use the negotiated rates, must paragraph (b)(1) for indirect (F&A) costs in effect at the time of the initial award throughout the life of the Federal award. Award levels for Federal awards may not be adjusted in future years as a result of changes in negotiated rates. “Negotiated rates” per the rate agreement include final, fixed, and predetermined rates and exclude provisional rates.

“Life” for the purpose of this subsection means each competitive segment of a project. A competitive segment is a period of years approved by the Federal awarding agency at the time of the Federal award. If negotiated rate agreements do not extend through the life of the Federal award at the time of the initial award, then the negotiated rate for the last year of the Federal award must be extended through the end of the life of the Federal award.

-b. Except as provided in §200.414 Indirect (F&A) costs, when an educational institution does not have a negotiated rate with the Federal Government at the time of an award (because the educational institution is a new recipient or the parties cannot reach agreement on a rate), the provisional rate used at the time of the award must be adjusted once a rate is negotiated and approved by the cognizant agency for indirect costs.

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