

Basics of F&A: *A University Perspective*



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Agenda

- ❑ Accountant's reconciliation of the old to new rules
- ❑ Overview of F&A
 - General provisions
 - Rules on cost principles
 - Rules on F&A costs
- ❑ How the F&A rate works
- ❑ Types of F&A rates
- ❑ Computing/negotiating an F&A rate
- ❑ Nuances of F&A rate rules (quirky rules)
- ❑ F&A Rate prep guidelines/tips/issues
- ❑ Sample rate agreements



Informal Data Collection Form

□ Survey

- How many organizations receive Federal funding?
- How many organizations have a Federally approved indirect cost rate?
- How many have no problems fully recovering their indirect cost rate on federal grants?



Reconciliation of the Rules

Regulation	Title
2 CFR Part 220 (formerly A-21)	Cost Principles for Educational Institutions
2 CFR Part 225 (formerly A-87)	Cost Principles for State, Local, and Indian Tribal Governments
2 CFR Part 230 (formerly A-122)	Cost Principles for Non-Profit Organizations
45 CFR Part 74, Appendix E (formerly OASC-3)	Principles for Determining Costs Applicable to Research and Development under Grants and Contracts with Hospitals
OMB Circular A-102	Grants and Cooperative Agreements with State and Local Governments
2 CFR Part 215 (formerly A-110)	Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations
OMB Circular A-133	Audits of State, Local Governments and Non-Profit Organizations

New Rules (2CFR 200)

2 CFR 200 - Organization

- Subparts A - F (200.0 – 200.521) plus Appendices
 - A-Acronyms and definitions in the front
 - B-General provisions
 - C-Pre-Award – Federal
 - D-Post Award – Recipients
 - **E-Cost principles**
 - F-Audit

RULES!
1. You SHALL!
2. You WILL!
3. You MUST!

Effective Date - 200.110

- For new and incremental funding awarded after 12/26/14
- This means “Now”

Indirect Rules: 2CFR 200 Appendices

- Subpart E – Cost Principles (200.400 – 200.475)
- **Appendix III – Indirect...Institutes of higher education**
- Appendix IV – Indirect...Nonprofit Organizations
- Appendix V – Cost Allocation plans – State & Local Gov' t
- Appendix VI – Cost Allocation plans – Public Assistance
- Appendix VII – Indirect Cost Proposals – State & Local and Indian Tribes
- Appendix VIII – NFP Exempt from subpart E Cost Principals of Part 200
- Appendix IX – Hospital Cost Principles (which basically say to go to 45 CFR Part 75 Appendix E) – No Changes

Importance of F&A Cost Reimbursement

- Permits Institution to recover **real** costs on awards
- Non-recovery can be costly
- Administrative functions are difficult to fund
- Establishes consistency in allocation of costs to projects
- Rates need to be in budgets in order to get recovery



Translation

English definition: Indirect Costs (n) IN-der-EK-t/CAH-st

- Synonymous with Facilities and Administrative cost (F&A)
- Benefits different activities and cannot be easily identified to benefit any one activity.

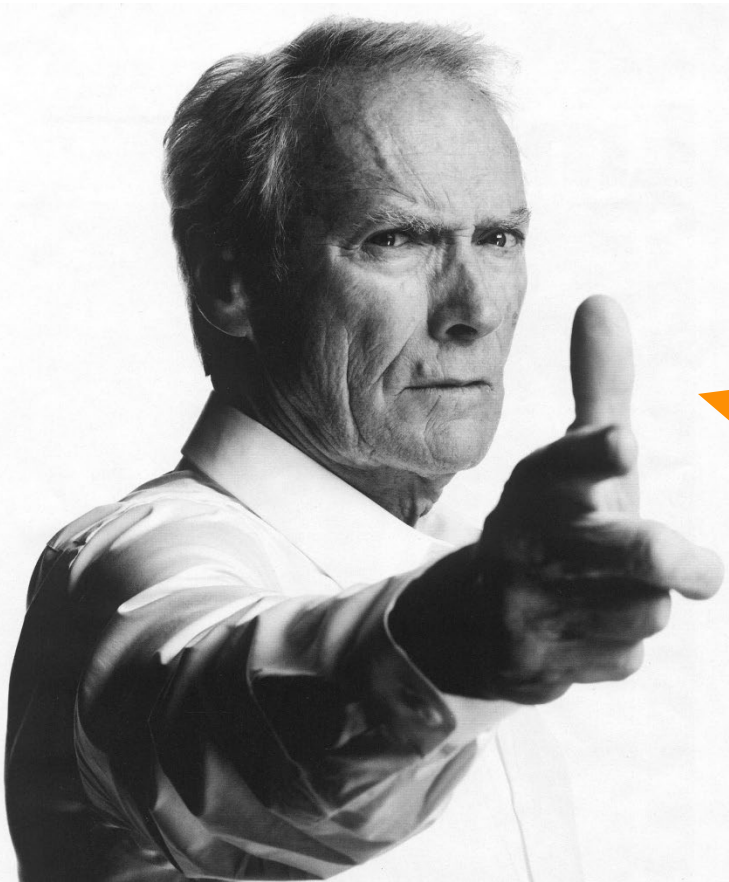


Official definition- Indirect Costs / F&A Costs (200.56)

- *Indirect (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.

Allowability of Costs

- Costs must be
 - Reasonable – “prudent person”
 - Allocable
 - Consistently treated



**‘I TRIED BEING
REASONABLE,
I DIDN'T
LIKE IT.’**

Cost Principles: Indirect Costs 200.414



Normally those costs that are not direct

- Salary of Administration (dept heads, deans, etc...)
- Other costs
 - Facility
 - Depreciation
 - Equipment
 - Operations/Maintenance
 - Administrative
 - Accounting, Legal, HR, IT

Remember: Costs are Split...

Direct Cost



Indirect Cost



Total Cost

Simple Indirect Rate Computation

Indirect Cost



Direct Cost



Indirect Cost Rate

INDIRECT COST RATE CALCULATION EXAMPLE

F & A Costs

Overhead costs incurred to support Research activities:

- Depreciation of Buildings & Equipment
- Operation & Maintenance of Research Areas
- Administrative & General Services

\$58,000

Direct Costs

Costs incurred in performing Research activities/protocols:

- Salaries and Fringe Benefits of Lab Personnel
- Research Supplies and Materials
- Research Consultants
- Travel

\$100,000

F & A Costs
Direct Costs



F & A Cost Rate = 58%

Types of Rate Bases

- ❑ Modified Total Direct Cost
- ❑ Salary & Wage
- ❑ Pro's & Con's to both
 - S&W (higher rate, but not recovery)
 - MTDC (most organizations use this base)

MTDC Definition (200.68)

- ❑ *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 sub-award 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 Distribution Base

□ Includes all direct functions:

- Salary/Wages
- Fringe benefits
- Materials and supplies
- Services
- Travel
- Subgrants and contracts up to the first \$25K



□ Excludes:

- Equipment and cap expenditures
- Charges for patient care
- Rental costs
- Tuition remission, fellowships, and scholarships
- Sub contracts in excess of \$25k



□ ***Note: Other items may be excluded if Federal agency deems necessary***

Frequently Asked Questions

Question: In the definition of Modified Total Direct Costs (MTDC) base, does the “regardless of the period of performance of subawards under the award” mean that if the subaward(s) to the subrecipient is made up of several separately executed funding agreements, in the course of the period of performance does each separate subaward agreement require including up to \$25k in the MTDC base for the award segment even if the scope of the subaward(s) remain the same.

Answer: Yes, if the subaward needs to be separately negotiated or renegotiated over the period of performance, this would support including an additional \$25K in MTDC for each subaward negotiation. The allowance of the \$25k is for the life of the award, or for each period of performance. Renewals of subawards may be considered, for determining the \$25k inclusion in MTDC, if they need to be formally renegotiated within the period of performance of the grant.

MTDC Example

Total Direct Costs in our budget:	<u>\$160,000</u>
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Salaries/benefits:	\$95,000
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Supplies:	\$5,000
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Subawards under \$25k	\$25,000
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Subawards over \$25k:	\$20,000
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Capital Equipment:	\$10,000
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Participant Support Costs	\$5,000
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<u>\$160,000</u>

Modified Total Direct Costs:

= \$160,000 - 20,000 - 10,000 - 5,000

= \$125,000 MTDC * 20% = \$25,000 (IDC)

Salary & Wage Example

Total Direct Costs in our budget:	<u>\$160,000</u>
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Salaries/benefits:	\$95,000
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Supplies:	\$5,000
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Subawards under \$25k	\$25,000
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Subawards over \$25k:	\$20,000
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Capital Equipment:	\$10,000
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Participant Support Costs	\$5,000
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<u>\$160,000</u>

Salary and Wage Direct Costs

=\$95,000 S&W 20% - \$19,000

Getting an Approved Rate



- ❑ Must have a notice of grant, contract or other award
- ❑ Must submit notice as part of rate proposal
- ❑ Need to submit rate proposal to Cognizant Agency

Negotiating an Indirect (F&A) Rate

- First: Find a cognizant agency
 - Predominant funding
 - HHS – Cost Allocation Services
 - Office of Naval Research



DANCE BREAK!



Computing the F&A Rate (Short Form or Long Form)

□ Short-Form or Simplified Method

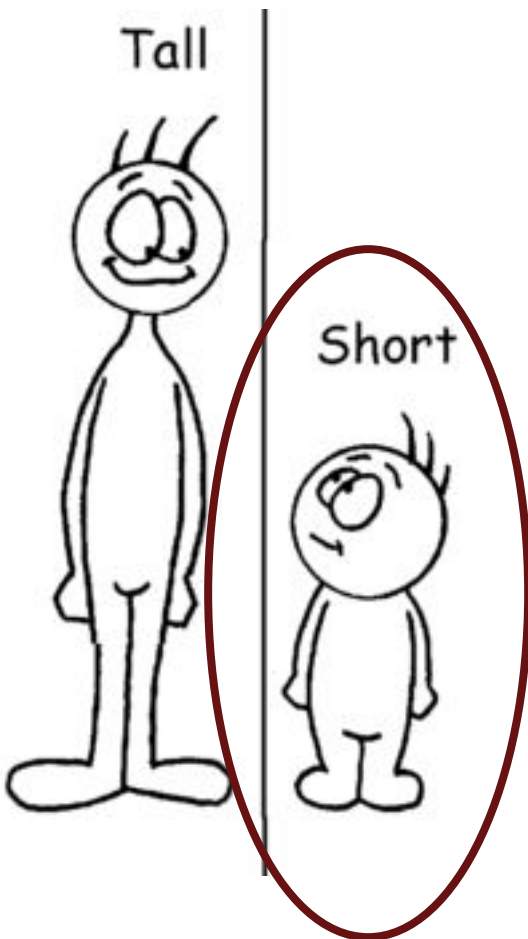
- Applicable to institutions where total direct costs is less than \$10M/year
- Can only be used if results in equitable distribution of costs between govt/org



□ Long Form or Standard Method

- Required where total direct costs are more than \$10M/year
- Prescribes the modified total direct cost allocation base (MTDC)
- Requires a comprehensive space study to allocate facilities costs
- Requires use of separate calculated indirect cost pools
- Uses a series of “cross allocations” to account for benefits of F&A activities
- Requires separate bases for cost allocation
 - Organized research, Instruction, Other sponsored activities, Other institutional activities

Short Form Calculation



- May use either of following as distribution basis:
 - Salary and wages (S&W)
 - Modified total direct costs (MTDC)
- S&W base equals total amount of direct salaries and wages paid to all employees of the institution
- S&W base results in higher cost rate but the same recovery
- Most organizations use the MTDC method
- F&A cost pool includes
 - G&A expenses, Operation/maintenance of physical plant, Depreciation, Library, Dept admin expenses
- F&A pools are combined under the simplified “Short Form” method

Types of F&A Rates

(included in Rate Agreement)

- ❑ On-campus organized research
- ❑ Off-campus organized research (Admin only)
- ❑ Other function-specific rates
 - Instruction and training
 - Other sponsored activities
 - Medical school
 - Research corporation
 - Clinical trials
 - Agriculture
 - Others?

Short Form University Rate Agreement

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

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE(%)</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
PRED.	07/01/2016	06/30/2020	53.00	On-Campus	All Programs
PRED.	07/01/2016	06/30/2020	18.10	Off-Campus	All Programs
PROV.	07/01/2020	Until Amended	53.00	On-Campus	All Programs
PROV.	07/01/2020	Until Amended	18.10	Off-Campus	All Programs

*BASE

Modified total direct costs, consisting of 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). Modified total direct costs shall exclude 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.

Long Form University Rate Agreement

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: Facilities And Administrative Cost Rates

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

EFFECTIVE PERIOD

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE(%)</u>	<u>LOCATION</u>	<u>APPLICABLE TO</u>
PRED.	07/01/2016	06/30/2020	47.00	On-Campus	Organized Research
PRED.	07/01/2016	06/30/2020	23.20	Off-Campus	Organized Research
PRED.	07/01/2016	06/30/2020	60.30	On-Campus	Instruction
PRED.	07/01/2016	06/30/2020	26.00	Off-Campus	Instruction
PRED.	07/01/2016	06/30/2020	27.40	On-Campus	Other Sponsored Activities
PRED.	07/01/2016	06/30/2020	22.70	Off-Campus	Other Sponsored Activities
PROV.	07/01/2020	Until Amended			Use same rates and conditions as those cited for fiscal year ending June 30, 2020.

Long Form Calculation - Overview



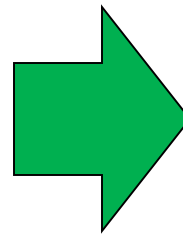
Cross allocations

Administrative Cost Pools

- General administrative
- Department administration
- Sponsored program administration
- Student services administration

Facility Cost Pools

- Building/Improvements depreciation
- Equipment depreciation
- Operations and maintenance
- Interest
- Library



Bases

- Organized Research
- Instruction
- Other Sponsored Activity
- Other Institutional Activity



F&A Long Form Facility Cost Pools

- ❑ **Building depreciation**
 - Costs paid by Federal funding are not to be included in depreciation
- ❑ **Land improvements**
 - Sidewalks, exterior lighting, landscaping, off campus rental space (if not charged directly)
- ❑ **Equipment costs**
 - Includes depreciation for items of equipment not purchased with Federal funds
- ❑ **Operations and Maintenance**
 - Utilities, Custodial, Environmental health and safety, transportation, security
- ❑ **Interest**
 - Interest on debt associated with certain items (other interest is unallowable)
- ❑ **Library**
 - Recoverable costs include admin, book acquisition, periodicals (general costs)

F&A Long Form

Administrative Cost Pools

- General Administration
 - General, executive, and administrative to all institutional activities
 - Finance, Accounting, HR, Payroll, Purchasing, President, IT
- Departmental Administration
 - Includes expenses for project and instruction and:
 - Allowance (3.6% of MTDC) for admin effort of faculty and other professionals
 - Calculation of personnel costs for non-faculty and nonprofessional tech/admin staff and for supplies, travel, etc...
- Sponsored Projects Administration
 - Costs of functions established to support research and other projects
 - Costs include pre and post award admin and accounting
- Student Services Administration
 - Costs of student counseling, health services, admissions, etc...
 - Costs are only allocable to instruction costs

“Never Had A Rate” Rule (200.414f)

- ❑ (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.

Extension Rule (200.414g)

■ Allows a one-time extension of Federally negotiated F&A rates for up to four years

☐ Subject to the review and approval of the cognizant agency for indirect costs.

☐ If an extension is granted the non-Federal entity may not request a rate review until the extension period ends.

☐ At the end of the 4-year extension, the non-Federal entity must negotiate a new rate.

☐ Subsequent one-time extensions (up to four years) are permitted if a renegotiation is completed between each extension request.



Sounds kinda like
my tax return...

F&A Rate Negotiation Tips

- ❑ Don't always accept the first offer
- ❑ Worry about years that matter and will have an impact on recovery
- ❑ Take a position in one year to win the next
 - Incorporate position in rate proposal
 - Understand the government's position
 - Know how to challenge in future years
 - Look to win other positions and points



F&A Rate Negotiation Issues

- ❑ Buildings
- ❑ Changes in research base
- ❑ Administrative changes
 - Researcher salary in Admin pool
 - New positions coming on board
- ❑ Facility projections
 - Necessary due to multi-year predetermined rates
 - Buildings not always under construction
 - Occupancy plans and square footage not complete
 - Documentation issues
 - Future MTDC bases usually understated



Finally...

Understand Before You Sign

- ❑ What does my agreement mean?
- ❑ Does the agreement match my organizational goals?
- ❑ What type of rate do I have?
- ❑ When is my next submission (does that make sense)?
- ❑ Does the agreement reflect increases and decreases if changes in the organization are expected?



Types of Indirect Rates

- Provisional rate
 - Temporary rate for funding until final rate approved
- Fixed rate with carryforward
 - Rate that is fixed with provisions for future periods to raise or lower depending upon actual results
- Predetermined rate
 - For research and development contracts



Provisional Rate

*“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 Rate

- ***Predetermined indirect cost rates** are **permanent** rates established for a specific future period based on an estimate of the costs for that period. Except under very unusual circumstances, this type of rate is not subject to adjustment...*
- *“Predetermined rates are established when there is **a reasonable assurance**, based on experience and a **reliable estimate** of the organizations costs, that the predetermined rate will approximate the organizations actual rate.”*



Fixed Rates (With a Carry Forward)

*“Fixed rates are indirect cost rates which have 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**.”*

Questions



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