Financial Administrator Development Program: Indirect Costs/Facilities & Administrative/Overhead

February 3, 2015
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&
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Contract & Grant Administration
Agenda

• Introduction to Facilities & Administrative (F&A) Costs
• Review of Federal Regulations and Agencies
• Calculation of the F&A Rate
• Rate Negotiation
• F&A Rate Recovery
• Questions
Introduction to F&A Costs

- Resources required to undertake a sponsored project include associated direct and indirect (or F&A) costs
  - Direct costs – costs that can be specifically identified to a sponsored project
  - F&A or Indirect costs – costs incurred for common or joint objectives and cannot be readily identified with a specific sponsored project – these are real costs!
- Institutional Support costs – Investigator Salaries, startup costs, etc.
Total Cost of Research

Organized Research Costs

- Direct Costs from Grants: 55%
- F&A Recovery: 30%
- Revenues from Grants: 15%
- Institutional Support: 15%
Introduction to F&A Costs

- Two main types of F&A costs
  - **Facilities**
    - **Operations and Maintenance of Plant** – heating, lighting, custodial services, landscape services, campus security, routine building maintenance (~$164 million)
    - **Building and Equipment Costs** – depreciation of buildings and equipment, interest costs associated with new buildings/equipment (~$106 million)
    - **Library** – portion of the cost of books and other library materials (~$27 million)
Introduction to F&A Costs

• Two main types of F&A costs
  • Administrative
    • General and Administrative Expenses – expenses of executive administration, MSU business office, other central admin offices: President, Provost, Personnel, General Counsel, Controller, etc (~$107 million)
    • Departmental Administration – administrative and support expenses of departments, colleges and divisions that support common or joint activities (~$95 million)
      – Office supplies, Office computers, Administrative salaries, Local phone and postage
Introduction to F&A Costs

• Two main types of F&A costs
  • Administrative – Continued
    • Sponsored Projects Administration – expenses of units
      that administer sponsored projects: Office of
      Sponsored Programs (pre-award), Contract and Grants
      Administration (post-award), Vice President for
      Research and Graduate studies; provides services for
      multi-colleges, e.g. proposal review, fiscal management,
      etc (~$11 million)
Review of Federal Regulations

• OMB Circular A-21 – replaced by 2 CFR Part 200 the “Uniform Guidance”!
  • Developed to appropriately allocate indirect costs to sponsored projects
  • Establishes accounting principles upon which the indirect cost rate must be calculated
  • Costs must be allocable, allowable, reasonable, consistently treated, and necessary

• Division of Cost Allocation (DCA) Best Practices Manual
  • Developed to assist DCA staff in reviewing and analyzing College and University F&A rate proposals
Review of Federal Agencies for F&A Rates

• Cognizant Agency for F&A Determinations
  • Identified by OMB based on federal expenditures
  • MSU: Department of Health and Human Services (DHHS)
    • 3-4 year rates
    • Negotiated rates usually 5 points less than proposed
  • Office of Naval Research (ONR) for those with Department of Defense awards
    • 1 year rates
    • Negotiated rates usually 1-2 points less than proposed
  • While HHS is our cognizant agency for F&A, the National Science Foundation (NSF) is our federal audit cognizant agency
Calculation of the F&A Rate

• Begin with the MSU Financial Report
• Separate all costs into direct (by function) or indirect (by cost pool)
• Allocate indirect costs back to major functions
• Divide the F&A costs by direct costs = the “rate”
• Apply the federal limits (Admin limited to 26%)
• Send to DHHS in Dallas, TX
  • Next proposal due 12/31/2014 (6 months after fiscal year)
  • Goal to establish rates prior to 6/30/2015
Calculation of the F&A Rate

• Major Functions of the University
  • **Instruction** – teaching and training activities of an institution; departmental research
  • **Organized Research** – all research and development activities of an institution that are separately budgeted and accounted for
  • **Other Sponsored Activities** – programs and projects which involve the performance of work other than instruction and organized research
  • **Other Institutional Activities** – all other activities of the institution including athletics, residential housing, etc.
Calculation of the F&A Rate

**ADMINISTRATIVE COST POOLS**
- General Administration
- Departmental Administration
- Sponsored Program Administration
- Student Services

**FACILITY COST POOLS**
- Building Depreciation
- Building External Interest
- Land Improvements
- Equipment Depreciation
- Operations and Maintenance
- Library

**INSTRUCTION**

**ORGANIZED RESEARCH**

**OTHER SPONSORED ACTIVITY**

**OTHER INSTITUTIONAL ACTIVITY**

Limited to 26%

*MTC* [Modified Total Costs]
Calculation of the F&A Rate

MICHIGAN STATE UNIVERSITY
FYE JUNE 30, 2010

Stepdown Schedule

<table>
<thead>
<tr>
<th>Cost Group</th>
<th>Total Cost</th>
<th>BLDG</th>
<th>EQUIP</th>
<th>BLDGINT</th>
<th>OM</th>
<th>GA</th>
<th>DA</th>
<th>SPA</th>
<th>SSA</th>
<th>LIB</th>
<th>Total</th>
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<tbody>
<tr>
<td>INDIRECT POOLS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>01  BLDG &amp; IMPR DEPR</td>
<td>59,678,030</td>
<td>-59,979,030</td>
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<td></td>
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<td>02  EQUIP DEPRECIATION</td>
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<td>-16,210,528</td>
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<td></td>
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<td>03  BLDG INTEREST</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>04  OPERATIONS &amp; MAINT</td>
<td>164,219,319</td>
<td>6,131,438</td>
<td>595,755</td>
<td>5,565,625</td>
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<td>05  GENERAL ADMIN</td>
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<td>1,502,905</td>
<td>1,404,806</td>
<td>608,267</td>
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<td>06  DEPT ADMINISTRATION</td>
<td>65,334,530</td>
<td>2,262,167</td>
<td>762,910</td>
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<td>10,157,475</td>
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<tr>
<td>07  SPON PROJECTS ADMIN</td>
<td>11,269,018</td>
<td>144,180</td>
<td>54,483</td>
<td>9,556</td>
<td>1,301,149</td>
<td>1,195,508</td>
<td>-13,964,894</td>
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<td>08  STUDENT SVCs ADMIN</td>
<td>30,385,808</td>
<td>258,847</td>
<td>25,803</td>
<td>84,984</td>
<td>1,483,058</td>
<td>3,228,251</td>
<td>-35,506,849</td>
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<td>09  LIBRARIES</td>
<td>27,429,031</td>
<td>706,078</td>
<td>368,699</td>
<td>471,774</td>
<td>4,255,209</td>
<td>2,912,110</td>
<td>-36,181,901</td>
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</table>

DIRECT BASES

| 10  INSTRUCTION             | 454,800,929 | 20,204,075 | 4,613,971 | 6,813,811 | 45,783,604 | 48,287,468 | 83,462,729 | 1,611,056 | 35,506,649 | 32,804,720 | 734,669,012 |
| 11  ORGANIZED RESEARCH      | 201,440,229 | 7,791,254 | 5,521,047 | 5,207,832 | 36,239,809 | 21,387,465 | 26,245,420 | 9,068,408 | 626,698 | 111,861,180 | 2,752,584 | 320,712,048 |
| 12  OTHER SPONSORED ACTI     | 84,037,325  | 1,516,075 | 481,050 | 568,327 | 4,778,999 | 8,919,280 | 7,998,047 | 3,285,429 | 462,340,173 | 626,698 | 111,861,180 |
| 13  OTHER INST ACT           | 347,962,140 | 19,427,017 | 2,390,667 | 9,548,799 | 87,855,993 | 15,154,357 | | | | | |

TOTAL                       | 1,628,762,386 | 8 | 3 | 1 | 26 | 1 | -9 | -1 | 1 | 1,628,762,413 |
Calculation of the F&A Rate

Direct Cost Group: 11 — ORGANIZED RESEARCH

<table>
<thead>
<tr>
<th>Indirect Cost Group</th>
<th>Base Indicator</th>
<th>Base</th>
<th>Allocated Amount</th>
<th>Rate</th>
<th>Capped Rate</th>
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<td>21,387,465</td>
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<td>All</td>
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<td>28,245,420</td>
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<td></td>
<td>58,701,293</td>
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<td>29.80</td>
<td>26.00</td>
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<tr>
<td>Facilities</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>01 — BLDG &amp; IMPR DEPR</td>
<td>On</td>
<td>183,614,632</td>
<td>7,791,254</td>
<td>4.24</td>
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<tr>
<td>02 — EQUIP DEPRECIATION</td>
<td>On</td>
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<td>5,521,047</td>
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<td>03 — BLDG INTEREST</td>
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<td>183,614,632</td>
<td>5,207,832</td>
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<td>04 — OPERATIONS &amp; MAINT</td>
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<td>39,299,809</td>
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<td>09 — LIBRARIES</td>
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<td>2,750,584</td>
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<tr>
<td><strong>Subtotal For Facilities</strong></td>
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<tr>
<td></td>
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<td>60,570,526</td>
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<td>32.99</td>
<td>32.99</td>
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<td>On Campus Rate:</td>
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<td></td>
<td>62.79</td>
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<td>Off Campus Rate:</td>
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<td></td>
<td></td>
<td></td>
<td>29.80</td>
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</table>
Rate Negotiation Process

• MSU calculates the F&A rate every 3-4 years and submitted to the federal government (DHHS)
• DHHS auditors will review the calculation of the rate and may schedule an on-site visit for further review
• After the review is completed, the federal auditors will negotiate with MSU to determine a final rate
  • Length of agreement
  • Negotiation strategy – escalating vs. fixed rate
  • Federal assumptions regarding institution
  • Points of flex – difference between calculated rate and desired
Rate Negotiation

- MSU’s most recent rates were negotiated on June 24, 2011

- Calculated 63%, Capped at 58%, Negotiated 53.5%

<table>
<thead>
<tr>
<th>Project Type</th>
<th>7/1/2011-6/30/2015</th>
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</thead>
<tbody>
<tr>
<td>Research</td>
<td>53.5%</td>
</tr>
<tr>
<td>Other Sponsored Projects</td>
<td>36%</td>
</tr>
<tr>
<td>Off-Campus</td>
<td>26%</td>
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</tbody>
</table>

F&A rate components for the on-campus research rate

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Administration</td>
<td>7.5%</td>
</tr>
<tr>
<td>Department Administration</td>
<td>14.9%</td>
</tr>
<tr>
<td>Sponsored Projects Administration</td>
<td>3.6%</td>
</tr>
<tr>
<td>Total Administrative Cost Pools</td>
<td>26.0%</td>
</tr>
<tr>
<td>Building Depreciation</td>
<td>3.6%</td>
</tr>
<tr>
<td>Equipment Depreciation</td>
<td>2.2%</td>
</tr>
<tr>
<td>Interest</td>
<td>2.4%</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>18.0%</td>
</tr>
<tr>
<td>Library</td>
<td>1.3%</td>
</tr>
<tr>
<td>Total Facilities Cost Pools</td>
<td>27.5%</td>
</tr>
<tr>
<td>Total F&amp;A Rate</td>
<td>53.5%</td>
</tr>
</tbody>
</table>
How does MSU’s rate compare to the Big 10?

- For FY 13, the average F&A rate for organized research in the Big 10 was 53.3%
Is it true that our 53.5% rate means ½ the project costs are for F&A?

• No! Actual is about 1/3
  • Project with $100,000 in Direct Costs and F&A of 53.5%:
    
    | Direct Costs | F&A Costs  |
    |--------------|------------|
    | $100,000     | $53,500    |
    | $153,500     |            |

*$100,000/$153,500 = 65%

**$53,500/$153,500 = 35%
F&A Rate Recovery

• How are F&A expenses recorded on the project?
  • Automatically recorded nightly to object code 6487
  • The rate is applied to Modified Total Direct Costs (MTDC) which is all direct expenses except equipment, graduate tuition, and the amount of sub-awards > $25k
  • Some projects use Total Direct Costs (TDC)

• During FY 12-13, F&A cost recovery generated $69.8 million in revenue for MSU

• What happens when sponsors don’t pay full F&A?
  • More institutional support devoted to research
F&A Rate Recovery

F&A Revenue - $69.8m

- Back to College ($6.98m)
- Back to Department ($6.98m)
- To VPRGS ($5.24m)
- F&A Support to the General Fund ($50.6m)
F&A Rate Recovery

• Most sponsored projects pay the negotiated rate
  • Exceptions:
    • USDA – ~28.20% TDC
    • USDE – ~8.0% TDC
    • State of Michigan – 20% MTDC
    • Non-profits – 0% or rate per organization’s written policy
    • Testing (including clinical trials) – 26% TDC

• Indirect Cost Waiver/Reduction Process
  • Written justification from PI submitted to departmental chair, then college research associate dean
  • If approved, request is submitted to VPRGS for consideration
Questions?
Thank you!

Contract and Grant Administration F&A contacts:

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Kasey Schiellerd, Reports Group Manager
marsh229@cga.msu.edu