

Indirect Costs/Facilities & Administrative/Overhead



Presenters:

Evonne Pedawi, Assistant Director, Contract and Grant Administration
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Agenda

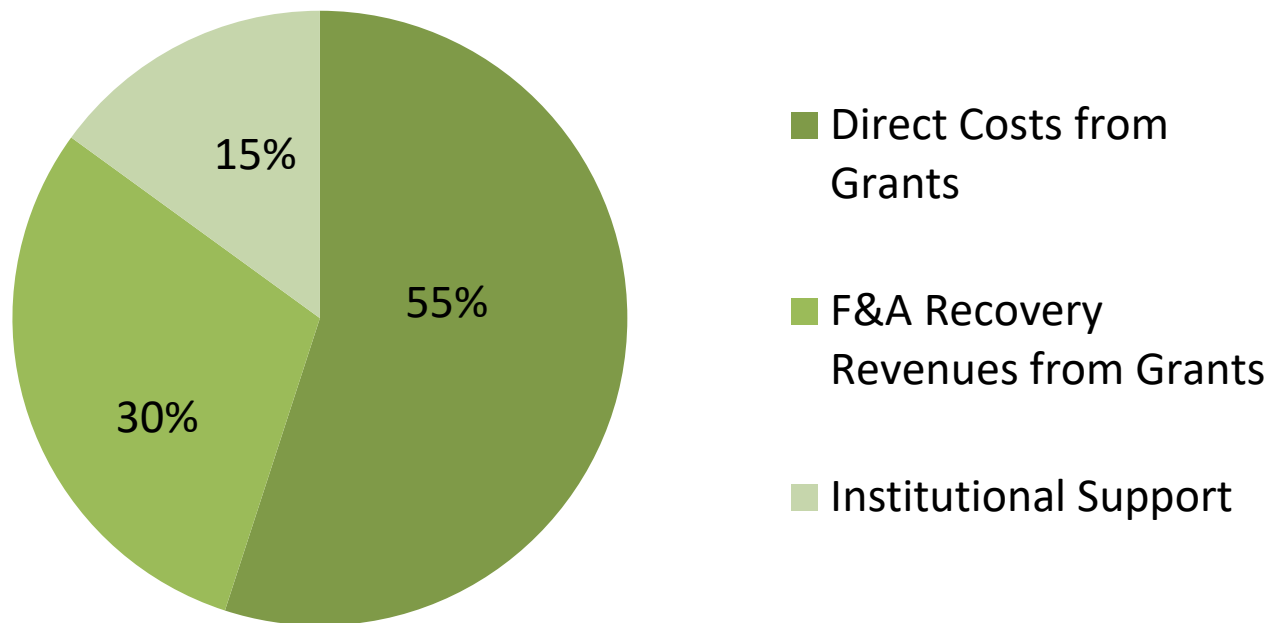
- Introduction to Facilities & Administrative (F&A) Costs
- Review of Federal Regulations and Agencies
- Calculation of the F&A Rate
- Rate Negotiation
- F&A Rate Recovery
- Questions

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



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 (~\$155 million)
 - **Building and Equipment Costs** – depreciation of buildings and equipment, interest costs associated with new buildings/equipment (~\$85 million)
 - **Library** – portion of the cost of books and other library materials (~\$21 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 (~\$103 million)
 - **Departmental Administration** – administrative and support expenses of departments, colleges and divisions that support common or joint activities (~\$146 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 (~\$14 million)

Review of Federal Regulations

- 2 CFR Part 200 the Uniform Guidance (or UG) Appendix III – Replaced OMB Circular A-21
 - 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

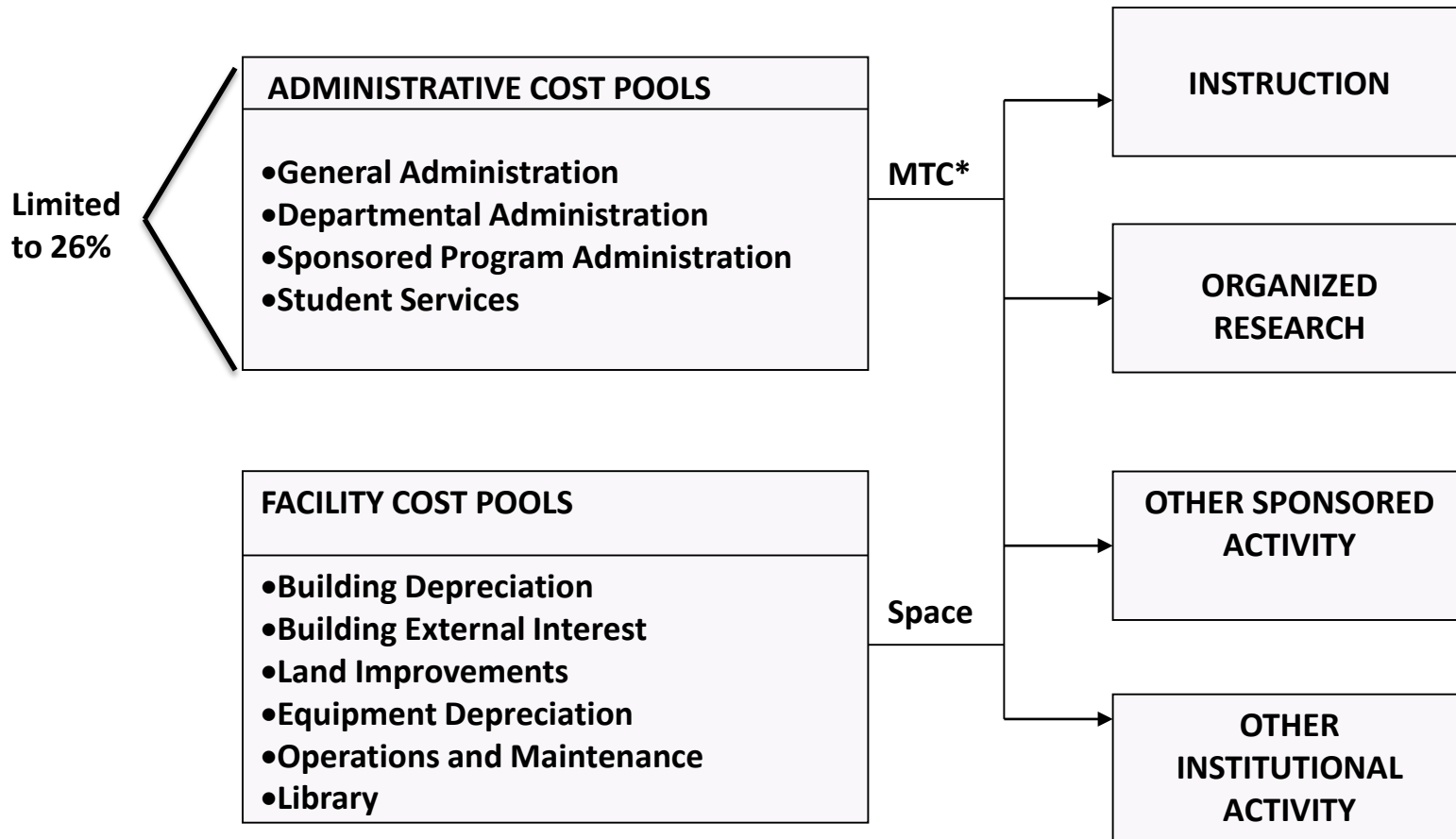
Calculation of the F&A Rate

- 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 12/31/2018 using FY 2017-18 data, 6 months after fiscal year end
 - Goal to establish rates to be used 7/1/2019

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



*Modified Total Costs

Calculation of the F&A Rate

Michigan State University

FYE June 30, 2014

Stepdown Schedule

Cost Group	Total Cost	BLDG	EQMT	INT	OM	GA	DA	SPA	SSA	LIB	Total
INDIRECT POOLS											
01 - Building Depreciation	85,324,690	-85,324,690									
02 - Equipment Depreciation	43,642,775		-43,642,775								
03 - Interest	49,191,474			-49,191,474							
04 - Operations and Maintenance	154,683,586	7,426,636	4,402,318	10,391,102	-182,762,268	5,858,626					
05 - General Administration	103,312,738	1,891,504	2,163,211	530,632	6,713,296	-114,611,381					
06 - Departmental Administration	145,754,471	4,638,169	2,328,354	2,017,981	7,971,725	12,574,590	-175,285,290				
07 - Sponsored Projects Administration	14,544,745	285,513	106,092	21,558	568,110	1,259,118		-16,785,136			
08 - Student Services Administration	37,707,043	1,568,631	913,023	927,436	5,514,699	3,259,149			-49,889,981		
09 - Library	20,705,187	1,293,188	855,876	570,551	4,555,163	1,788,776				-29,768,741	
DIRECT BASES											
10 - Instruction and Departmental Research	482,987,331	22,747,521	6,998,315	8,372,337	41,567,896	41,525,997	136,555,866	1,140,511	49,889,981	25,036,877	816,822,632
11 - Organized Research	228,300,372	11,134,520	9,401,435	7,672,404	51,214,104	19,628,674	31,485,953	11,189,698		2,675,394	372,702,554
12 - Other Sponsored Activities	74,142,568	2,913,260	1,484,515	2,422,612	5,371,331	6,374,586	7,243,476	4,454,926		610,267	105,017,541
13 - Other Institutional Activities	478,716,060	31,425,763	14,989,659	16,264,859	59,285,981	22,341,878				1,446,204	624,470,404
Grand Total:	1,919,013,040	15	23	-2	37	13	5	-1		1	1,919,013,131

Calculation of the F&A Rate

Direct Cost Group: 11 - Organized Research

Indirect Cost Group	Base Indicator	Base	Allocated Amount	Rate	Capped Rate
Administrative					
05 - General Administration	All	228,300,372	19,628,674	8.60	
06 - Departmental Administration	All	228,300,372	31,485,953	13.79	
07 - Sponsored Projects Administration	Sponsor	184,728,153	11,189,698	6.06	
Subtotal For Administrative			62,304,325	28.45	26.00
Facilities					
01 - Building Depreciation	On Campus	213,980,867	11,134,520	5.20	
02 - Equipment Depreciation	On Campus	213,980,867	9,401,435	4.39	
03 - Interest	On Campus	213,980,867	7,672,404	3.59	
04 - Operations and Maintenance	On Campus	213,980,867	51,214,104	23.93	
09 - Library	On Campus	213,980,867	2,675,394	1.25	
Subtotal For Facilities			82,097,857	38.36	38.36
On Campus Rate:				66.81	64.36
Off Campus Rate:				28.45	26.00

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 26, 2015
- Calculated 67%, Capped at 64%, Negotiated 55% effective 7/1/16-6/30/19

RATE APPLIES TO:	Current Rates	Future Rates
	7/1/11 - 6/30/16	7/1/16 - 6/30/19
Research (MTDC)	53.5%	55%
Other Sponsored Activities (MTDC)	36%	36%
Off-Campus (MTDC)	26%	26%
Fee-for-Services (TDC)	26%	26%

F&A Rate Components for On-Campus Research	
General Administration	7.7%
Departmental Administration	12.70%
Sponsored Projects Administration	5.60%
Total Administrative Cost Pools	26%
Building Depreciation	3.9%
Equipment Depreciations	3.3%
Interest	2.7%
Operations & Maintenance	18.1%
Library	1.0%
Total Facilities Cost Pools	29.0%
Total F&A Rate	55%

How does MSU's rate compare to the Big 10?

- For FY 16, the average F&A rate for organized research in the Big 10 was 54.5%

Big Ten Facilities & Administrative Rates			
	F&A Cognizant Agency	Institution	2016-17
1	ONR	Illinois - Urbana-Champaign	58.6%
2	HHS	Indiana	56.0%
3	HHS	Michigan	*55.0%
4	HHS	Purdue	55.0%
5	HHS	Rutgers	*55.0%
6	HHS	Northwestern	56.5%
7	HHS	Ohio State	*54.0%
8	HHS	Michigan State	55.0%
9	HHS	Maryland	*52.0%
10	HHS	Wisconsin	53.0%
11	HHS	Minnesota	52.0%
12	HHS	Iowa	52.5%
13	HHS	Nebraska	52.0%
14	ONR	Penn State	**57.2%
		Big Ten Average	54.5%
	HHS	Wayne State	54.0%
	ONR	Stanford	*58.0%
	HHS	Duke	59.0%
	ONR	MIT	*54.7%
	HHS	Harvard - Medical School	58.5%
	* = Provisional Rate	** = Fixed Rate	

Is it true that our 55% rate means ½ the project costs are for F&A?

- No! Actual is about 1/3
 - Project with \$100,00 in Direct Costs and F&A of 55%:

\$100,000	65% Direct Costs*
<u>\$55,000</u>	<u>35% F&A Costs**</u>
\$155,000	100% Total Project Costs

$$*\$100,000/\$155,000 = 65\%$$

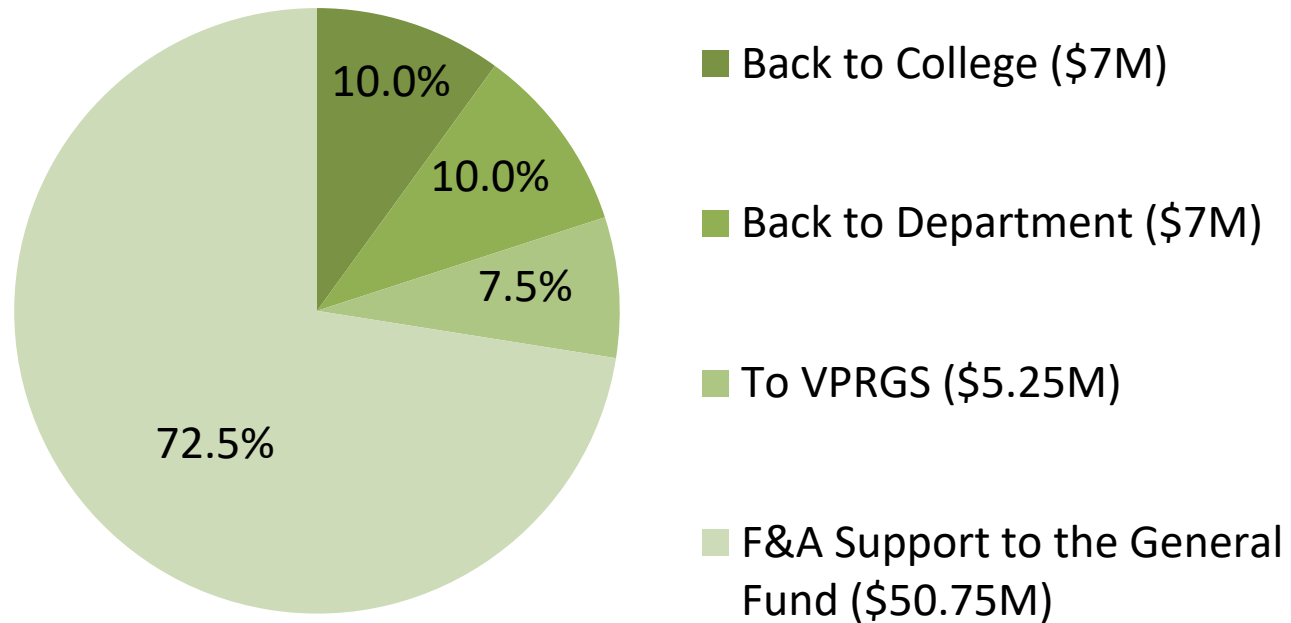
$$**\$55,000/\$155,000 = 35\%$$

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 15-16, F&A cost recovery generated \$70 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

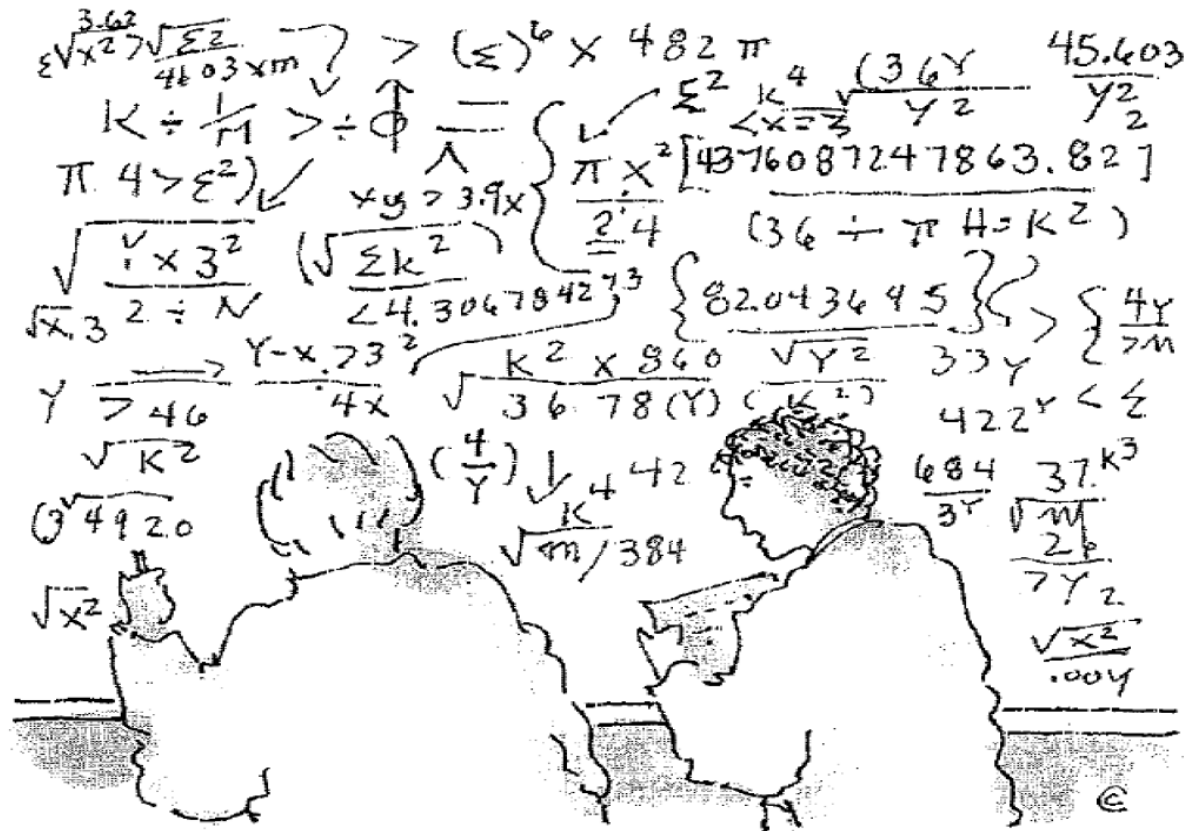
F&A Revenue - \$70M



F&A Rate Recovery

- Most sponsored projects pay the negotiated rate
 - Exceptions:
 - USDA – 22/30% TFFA = 28.205 or 42.857% of MTDC or 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?



THE CHRONICLE OF HIGHER EDUCATION

CAROL E. CABLE

"This is the easy part. The challenge will be figuring out the indirect cost for the grant proposal"

Thank you!

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