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

February 6, 2013
Dan Evon, Director
Lindsey Grulke, Manager
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

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

Total Cost of Research
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
  • 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
- Land Improvements
- Equipment Depreciation
- Operations and Maintenance
- Library

### INSTRUCTION
- MTC*

### ORGANIZED RESEARCH

### OTHER SPONSORED ACTIVITY
- Space

### OTHER INSTITUTIONAL ACTIVITY

*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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<td>64,984</td>
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<td>10 INSTRUCTION</td>
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<td>7,791,254</td>
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<td>5,267,832</td>
<td>36,239,809</td>
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<td>26,245,420</td>
<td>9,068,406</td>
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## 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>Administrative</td>
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<tr>
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<td>All</td>
<td>201,440,229</td>
<td>21,387,465</td>
<td>10.62</td>
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<tr>
<td>06 DEPT ADMINISTRATION</td>
<td>All</td>
<td>201,440,229</td>
<td>28,245,420</td>
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<td>Sponsor</td>
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<td>9,068,408</td>
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**Subtotal For Administrative**

|                       |                |           |                  |       |             |
|                       |                | 58,701,293 | 29.80           | 26.00 |             |

**Facilities**

|                       |                |           |                  |       |             |
| 01 BLDG & IMPR DEPR   | On             | 183,614,632 | 7,791,254       | 4.24  |             |
| 02 EQUIP DEPRECIATION | On             | 183,614,632 | 5,521,047       | 3.01  |             |
| 03 BLDG INTEREST      | On             | 183,614,632 | 5,207,832       | 2.84  |             |
| 04 OPERATIONS & MAINT | On             | 183,614,632 | 39,299,809      | 21.40 |             |
| 09 LIBRARIES          | On             | 183,614,632 | 2,750,584       | 1.50  |             |

**Subtotal For Facilities**

|                       |                |           |                  |       |             |
|                       |                | 60,570,526 | 32.99           | 32.99 |             |

**On Campus Rate:**

|                       |                | 62.79     | 58.99           |       |             |

**Off Campus Rate:**

|                       |                | 29.80     | 26.00           |       |             |
Rate Negotiation Process

- The calculated F&A rate is periodically prepared 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>
</tr>
</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>

<table>
<thead>
<tr>
<th>F&amp;A rate components for the on-campus research rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Administration</td>
</tr>
<tr>
<td>Department Administration</td>
</tr>
<tr>
<td>Sponsored Projects Administration</td>
</tr>
<tr>
<td><strong>Total Administrative Cost Pools</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>27.5%</th>
</tr>
</thead>
<tbody>
<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>
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<tr>
<td><strong>Total Facilities Cost Pools</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total F&amp;A Rate</strong></td>
<td>53.5%</td>
</tr>
</tbody>
</table>
How does MSU’s rate compare to the Big 10?

- For FY 12, 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%:
    - $100,000 65% Direct Costs*
    - $53,500 35% F&A Costs**
    - $153,500 100% Total Project Costs

*\( \frac{100,000}{153,500} = 65\% \)

**\( \frac{53,500}{153,500} = 35\% \)
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 11-12, F&A cost recovery generated $68.5 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 - $68.5m

- Back to College ($6.85m) 10.0%
- Back to Department ($6.85m) 10.0%
- To VPRGS ($5.14m) 7.5%
- F&A Support to the General Fund ($49.66m) 72.5%
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
Thank you

Dan Evon
evon@cga.msu.edu

Lindsey Grulke
grulkel@cga.msu.edu

Contract & Grant Administration
www.cga.msu.edu