Facilities and Administrative Rate at Vanderbilt
(aka F&A, Indirect, IDC, Overhead)

Cathy Snyder
Office of Contract and Grant Accounting
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Top Ten F&A Facts Grants Managers Need to Know

1. “Real” Costs incurred to support research
2. Cost recovery mechanism for expenses already incurred – NOT a “Tax” on Grants
3. All costs are generally not recovered (administrative cap, agency limitations, internal approved waivers, proposed vs. negotiated rates, utility recovery restrictions, etc.)
4. Space Survey is the major driver to allocate Facilities (uncapped) related costs
5. Why we care….extremely large dollars the institution is entitled to
6. Impact of cost sharing on the F&A rate
8. Consistent costing treatment
9. Ensuring costs are charged to the proper account is extremely important
10. Life of the Award regulation (Appendix III to C.F.R. Part 200, C.7.)
Agenda

• Definitions – Key Terms
• Overview: F&A Calculation and Importance
• Life After the F&A Rate Proposal is Submitted
• Throughout: How YOU contribute to a successful calculation and negotiation
• **OMB – Office of Management and Budget**
  - Issues principles for determining costs applicable to R&D, training, and other sponsored work performed under grants, contracts and other cost reimbursable agreements with the Federal government.
    - Current principles/regulations are in 2CFR Part 200 (Uniform Guidance)

• **Cognizant Agencies**
  - Responsible for negotiating and approving F&A rates and auditing to ensure that institutions are applying cost principles on a consistent basis.
  - Two primary agencies:
    - Department of Health and Human Services (DHHS)
    - Office of Naval Research (ONR)
Definitions – Key Terms

• **Direct Costs = Bases = Denominator**
  – Can be identified specifically with a particular project, program, or activity of an institution
    • Examples: Salaries and Wages, Benefits, Materials, Supplies and Services, etc.

• **Facilities and Administrative (Indirect) Costs = Pools = Numerator**
  – Incurred for common or joint objectives; cannot be easily identified to a particular project, program, or activity of an institution
    • Examples: Utilities, Equipment Depreciation, Administrative Costs, etc.

• **Allocation Base(s)**
  – Common measurable base(s) used to allocate F&A costs
    • Examples: Space (square footage), Modified Total Direct Cost (MTDC), Full-Time Equivalents, Salaries and Wages

• **Cost Sharing**
  – Costs benefiting a federal project but funded by the institution
Definitions – Key Terms

• **F&A Rates**
  – A cost recovery mechanism for expenses already incurred in support of research

• **Types of F&A Rates**
  – *Predetermined Rate* – a permanent rate that is agreed to in advance, based on an estimate of future costs. Not subject to adjustment.
  – *Provisional Rate* – a temporary rate, agreed to in advance, based on anticipated future costs. It is subject to retroactive adjustment at a future date after costs are known.
  – *Fixed Rate with Carry Forward* – rate agreed to in advance, based on an estimate of future costs, but is not subsequently adjusted. Instead, the difference between estimated and actual costs is carried forward to future year rates.
  – *Final Rate* – established after the costs are known.
FACILITIES AND ADMINISTRATION (F&A) COST CALCULATION

MODIFIED TOTAL COSTS

- Depreciation of Building & Equipment
- Operations & Maintenance (e.g. utilities, janitorial, repairs, security, grounds)
- Library (e.g. purchase of books & materials, librarian salaries)
- General & Administrative (e.g. Chancellor, Vice Chancellors, Controller, HR, Payroll, Legal)
- Departmental Administration (e.g. Academic Dean’s Offices, Dept Chairs, academic non-labor expenses)
- Student Services Administration (e.g. Admissions, Registrar, Student Health)
- Sponsored Project Administration (e.g. Pre-award office, Post-award office)
- Instruction/Dept Research (e.g. Prof. Salaries, TA, Training)
- Organized Research (e.g. Third party funded R&D costs separately budgeted & accounted for)
- Other Sponsored Projects (e.g. Third party funded community service projects, workshops, non-federal drug studies)
- Other Institutional Activities (e.g. athletics, dining halls, dorms, theaters)

DIRECT COST BASE
These become the denominator (base) in the rate calculations

F&A COST POOLS
After allocations – these become the numerator in the rate calculations
Simply Put…for Research

Research Facilities & Administrative Cost Pools

F&A Costs To Be Recovered

= Research F&A Rate

Organized Research Base (MTDC)

Sponsored Project Costs
University Funded Competitive Awards
Salary Over NIH Cap
Mandatory and Voluntary Committed Cost Sharing
Modified Total Direct Cost (MTDC) – the Denominator

- **MTDC generally includes:**
  - Allowable expenses charged to organized research grants and contracts:
    - Salaries and wages
    - Fringe benefits
    - Materials and supplies
    - Services
    - Travel
    - Subgrant or Subcontract <= $25,000 (regardless of period covered)
  - Mandatory and voluntary committed cost sharing

- **MTDC generally excludes:**
  - Capital expenditures
  - Patient care
  - Participant Support Costs
  - Tuition remission
  - Rental costs
  - Scholarships and Fellowships
  - Subgrant or Subcontract > $25,000 (regardless of period covered)
Application of F&A Rate

On Campus Research Proposed Total Direct Costs $100,000
  F&A Negotiated Rate 58.0%
  Base MTDC

Budget:
  Salaries and Benefits $45,000
  Capital Equipment 10,000
  Supplies 5,000
  Subcontract 40,000
  Total Direct $100,000
  F&A (75,000 x 58.0%) 43,500
  Total $143,500
Unallowable Costs

• Defined in 2CFR Part 200, sections 200.420 - 200.475
  – Examples include:
    • Alcohol
    • Bad Debt
    • Entertainment
    • Fund Raising
    • Lobbying
    • Etc.

• Indirect cost pools must be scrubbed
### How are F&A Costs Allocated?

<table>
<thead>
<tr>
<th>Pools</th>
<th>Allocation Statistic</th>
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</thead>
<tbody>
<tr>
<td><strong>Facilities</strong></td>
<td></td>
</tr>
<tr>
<td>• Buildings</td>
<td>➢ Space (Research Bldgs Componentized)</td>
</tr>
<tr>
<td>• Equipment</td>
<td>➢ Space (Room by Room Allocation)</td>
</tr>
<tr>
<td>• Interest</td>
<td>➢ Space</td>
</tr>
<tr>
<td>• Operations &amp; Maintenance</td>
<td>➢ Consumption, Space &amp; Utility Factor</td>
</tr>
<tr>
<td>• Library</td>
<td>➢ Student and Faculty FTE</td>
</tr>
<tr>
<td><strong>Administration (Capped at 26%)</strong></td>
<td></td>
</tr>
<tr>
<td>• General Administration</td>
<td>➢ MTDC</td>
</tr>
<tr>
<td>• Department Administration</td>
<td>➢ MTDC</td>
</tr>
<tr>
<td>• Sponsored Projects Administration</td>
<td>➢ MTDC</td>
</tr>
<tr>
<td>• Student Services Administration</td>
<td>➢ FTE and Direct Allocation</td>
</tr>
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Our Negotiated Indirect Cost Recovery (F&A) Rate is Less than True Underlying Costs

This is by design – the federal government demands that institutions share the costs

<table>
<thead>
<tr>
<th>FY19 On-Campus Research Cost Recovery Rate</th>
<th>Proposed</th>
<th>Negotiated</th>
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<tbody>
<tr>
<td><strong>Facilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building depreciation</td>
<td>7.0%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Equipment depreciation</td>
<td>4.4%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Debt interest expense</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>O&amp;M</td>
<td>18.5%</td>
<td>17.2%</td>
</tr>
<tr>
<td>Library expense</td>
<td>3.6%</td>
<td>2.5%</td>
</tr>
<tr>
<td><strong>Total Facilities</strong></td>
<td>34.5%</td>
<td>31.0%</td>
</tr>
<tr>
<td><strong>Administrative(1)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>11.1%</td>
<td></td>
</tr>
<tr>
<td>Departmental</td>
<td>19.0%</td>
<td></td>
</tr>
<tr>
<td>Sponsored projects</td>
<td>7.9%</td>
<td></td>
</tr>
<tr>
<td>Student services</td>
<td>.5%</td>
<td></td>
</tr>
<tr>
<td><strong>Total Administrative</strong></td>
<td>38.5%</td>
<td>26.0%</td>
</tr>
<tr>
<td><strong>Total F&amp;A Rate</strong></td>
<td>73.0%</td>
<td>57.0%</td>
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(1) The federal government has placed a cap of 26% on the amount of reimbursement for administrative components. For FY19, the loss in administrative support costs for research caused by this imposed cap translates to ~$11.2 million for the institution.
The Research Dollar at Vanderbilt
FY2019

Facilities & Administrative Costs = $0.24

Direct Costs = $0.76

Facilities Costs = $0.14

Buildings $ 0.03
Equipment $ 0.02
Interest $ 0.01
Operations & Maintenance $ 0.07
Library $ 0.01

Admin Costs = $0.10

General Administration $ 0.03
Departmental (incl Faculty) $ 0.05
Sponsored Programs $ 0.02

Salaries & Benefits $ 0.42
Supplies & Expense $ 0.20
Equipment $ 0.04
Subcontracts $ 0.10

Includes all research expenditures on externally funded sponsored projects, university funded research, departmental paid research, and cost sharing.
• During FY2019, the value of one point was worth over $1.0M annually

• Vanderbilt’s on campus research F&A recovery for the year ending June 30, 2019 was ~$58M
What are some areas that are subject to a higher level of scrutiny in F&A Proposals?

- Coding of Space
- Service Centers
- Effort Reporting
  - Compare how a faculty member’s effort is charged versus how their laboratory is coded in the space survey
  - Effort reports are used to determine if the institution is complying with the NIH salary cap and recording the proper amount of cost sharing.
- Cost Sharing
- Depreciation
- Bonds / Interest Costs
- Departmental paid O&M
- Projections
It Takes an Army….

“This all happens at the campus level, what do I have to do with it?”

EVERYTHING!
The Tenants of Costing & Coding

- Consistent treatment
- Ensuring costs are charged to the proper account is extremely important
- Ensuring space is properly functionalized based on the activity being performed
- Proper F&A rate application
Minimize Errors

Reduces Possible Government Extrapolation

• Understand Un/Allowable Costs (*Uniform Guidance Subpart E, Sections 200.420 – 200.475*)
• Ability to identify unallowable costs for a base year through scrub process
• Ensure proper coding of sponsored projects in Projects module
• Identification of items that should be in a different cost pool from funding
  • Departmental Paid O&M
  • Building Rent
The Impact of Space Allocation

• Space Survey is the major driver to allocate Facilities (uncapped) related costs
  – If a project is in 2 rooms, report in 2 rooms
  – Watch % of allocation
  – Walk the space as you complete
  – Interview faculty
  – Based on activity in the room, not S&W

• Space assignments
Impact of Committed Cost Sharing

Only Mandatory and Voluntary Committed Cost Sharing must be tracked. The higher the cost sharing, the more you devalue your F&A rate (all else equal)

Minimize

$25,000,000
$50,000,000

+$1M of cost share

$25,000,000
$51,000,000

50%
49%
Life After Submission

- **Government Review**
  - Additional Data Requests
  - On Site Review of Space

- **Preparing for Negotiation**
  - Negotiation Team
  - Obtain Senior Leadership Direction
  - Know where your strengths and weaknesses are
  - Know the impact on the proposed rate for each point of contention
  - Anticipate questions and develop arguments
  - Prep Departmental personnel

- **Conducting the Negotiations**
  - Government provides offer and negotiations begin!

- **Implementation of Negotiated Rates**
  - Life of the Award
  - Retroactive Adjustments
General Timeline

- **Base Year** = full fiscal year of actual activity that is the starting point for the F&A proposal. Work begins at the beginning of the base year.
- **Space Survey** with extensive review is conducted during the base year.
- A **complete equipment inventory** is needed during the base year, regardless of the timing of the last inventory.
- **F&A proposal** due to the federal government by December 31st following base year.
- **Timing of negotiations** is dependent on government but can take one to two years after submission to finalize.
- Preparing and Finalizing the F&A Rate Agreement generally takes 2 to 3 years.
Life of the Award Regulation

- Must use the negotiated rates in effect at the time of the initial award throughout the life (i.e. competitive segment) of the Federal award.

- If the negotiated rate agreement ends before the competitive segment, then the negotiated rate for the last year of the rate agreement will apply until the next competitive segment.

F&A Rate Agreement ends 6/30/2022 with 58.5% Rate

3 Year Competitive Segment 5/1/2022 - 4/30/2025 – Continue to Use 58.5% until 4/30/2025

3 Year Competitive Segment 8/1/2022 – 7/31/2025 – Will be subject to new negotiated rates
Questions?