Everything you always wanted to know about the F&A but were afraid to ask

JULY 2011

2 CFR, Part 220 (OMB Circular A-21)

- Cost Principles for Educational Institutions
- The circular contains the principles for determining costs applicable to grants, contracts and other agreements with educational institutions.
- Addresses both direct and F&A costs.
- Designed to provide that the federal government bears its fair share of total costs
- Implements the cognizant agency concept
  - Two agencies: DHHS, ONR

OMB A-21 Applicability

- It applies to all Federal agencies that sponsor:
  - research and development,
  - training, and
  - other work at educational institutions
- The principles shall also be used as a guide in the pricing of fixed price or lump sum agreements.
A-21 Major Functions (Bases)

- **Instruction** – Includes departmental research
- **Organized research** - Separately budgeted and accounted for. Includes:
  - University research
- **Other sponsored activities**; examples:
  - Health service projects
  - Community service programs
- **Other institutional activities**; examples:
  - Operation of residence halls, dining halls, student unions, intercollegiate athletics, bookstores, and other similar auxiliary enterprises.

Types of Costs

- **Direct costs**
  - Can be identified specifically with a particular sponsored project
  - Can be directly assigned to a sponsored project relatively easily with a high degree of accuracy
- **F&A costs** (also referred to as indirect costs or overhead)
  - Costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.
  - Two distinct components: Facilities & Administration
  - These are REAL costs already incurred

Allowability of Costs

- To charge sponsored projects, the associated costs must be:
  - Reasonable under the circumstances
  - Allocable to sponsored agreements
  - Treated consistently, and
  - Conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.
Components of F&A

- Facilities Cost Pools (uncapped)
  - Building Depreciation
  - Equipment Depreciation
  - Interest on Capital Debt
  - Operations and Maintenance expense
  - Library expense

- Administrative Cost Pools (capped at 26% per A-21)
  - General University Administration
  - Departmental Administration
  - Sponsored Projects Administration
  - Student Administration and Services

Recovery of Costs

- Direct Costs
  - Charged directly to the sponsored projects

- F&A Costs
  - Based on a negotiated rate with the cognizant agency (ONR)
  - Negotiated once every two to four years
F&A Rate Calculation

- F&A expenses = actual F&A costs

- MTDC base = all sponsored program expenses directly charged
  - Exclusions (equipment, subcontract > $25k, etc.)
  + University cost share

- F&A rate = \( \frac{F&A \text{ Expenses}}{MTDC \text{ BASE}} \)
Example – Cost Sharing

- Cost sharing has a negative impact on the F&A rate. Here is an example:
  - F&A expenses related to Organized Research = $53M
  - Organized Research Base = $103M
  - F&A rate = 53M/103M = 0.515 = 51.5%

- Use the information above but now take into account:
  - Cost sharing = $15M
  - The cost share is included in the base (or denominator of the F&A rate):
    - 103M + 15M = 118M
    - F&A rate = 53M /118M = 0.449 = 44.9%

- The impact of cost sharing is twofold:
  - First, the institution contributed $15M to support direct charges on the grants
  - Second, the cost sharing reduced the F&A rate by 6.6%.

Why is F&A important to YOU?

- When UD officials negotiate and sign the F&A rate agreement with the cognizant agency (ONR), they are agreeing to abide by A-21 rules and guidelines related to cost principles and their treatment. In other words, UD agrees to make sure:
  - Costs charged to the grants are allowable
  - Cost sharing has been properly accounted for
  - Direct-charging of admin salaries meet Exhibit C requirements, and
  - All other A-21 rules and regulations are followed

- Since awards are charged at the departmental level, it is imperative that you are familiar with, and have knowledge of, what costs can or cannot be charged to federal grants or contracts.

Other Considerations

- A-21, Section J - General provisions for selected items of cost
  - Lists 54 items and comments about allowability. e.g.
    - Sec. J.1 Advertising and public relations costs may or may not be allowable.
    - Sec. J.3, Alcohol beverages costs are unallowable
    - Sec. J.9, Communication costs are allowable
Other Considerations – Cont’d

• Examples of Unallowable Costs
  – Bad Debt (J.6)
  – Contingency (Reserves) Provisions (J.11)
  – Entertainment (J.17)
  – Fines and Penalties (J.19)
  – Interest (J.26) with exceptions
  – Lobbying (J.28)

Other Considerations – Cont’d

• Direct Charging of administrative salaries (A-21, Exhibit C)
  – Normally admin salaries are included in F&A cost pools but A-21 allows
direct-charging of admin salaries under the following circumstances:
    • Large, complex programs such as General Clinical Research Centers
    • Projects which involve extensive data accumulation, analysis and entry,
surveying, tabulation, cataloging and reporting
    • Projects that require making travel and meeting arrangements for large
numbers of participants, such as conferences and seminars.
    • Projects whose principal focus is the preparation and production of manuals
and large reports, books and monographs
    • Projects that are geographically inaccessible
    • Individual projects requiring project-specific database management;
manuscript preparation, human or animal protocols, etc.

Other Considerations – Cont’d

• Effort Reporting
  – Individuals who work on sponsored projects are required to certify how
they expended time and effort on regular intervals

• Service Centers (per A-21)
  – What is a service center
  – How to create a service center
  – How to maintain a service center
  – How to close a service center
Other Considerations – Cont’d

• Allowability of meals (non-travel) on grants and contracts
  – Rarely allowed on grants and contracts includes meal costs incurred for:
    • Ad-hoc meetings
    • Working lunches
    • Lab coffee breaks
    • Routine operations
    • Staff meals
    • Recurring weekly/monthly meeting to discuss the progress on an award
    • Meetings to discuss research during lunch or dinner