Understanding Facilities and Administration (F&A) Costs

Also known as Overhead Costs, or Indirect Costs.

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Welcome!

Presenters:

Matt Michener  matthew.michener@wsu.edu
Grant and Contract Coordinator Lead, Office of Research
509-335-1960

Karen Breese  kbreeze@wsu.edu
F&A Cost Specialist, Business Services
509-335-2056

F&A Topics

• What are "Facilities & Administrative" or overhead costs? Let's discuss:
  • Source of terminology, definitions and guidance.
  • How does the F&A rate impact WSU?
• Distribution of F&A returns, i.e. recoveries
• Please ask Questions
Total Direct Costs – recorded in WSU accounting for a Sponsored Project

<table>
<thead>
<tr>
<th>Direct Expenses:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
</tr>
<tr>
<td>Fringe benefits</td>
</tr>
<tr>
<td>Services</td>
</tr>
<tr>
<td>Supplies</td>
</tr>
<tr>
<td>Travel</td>
</tr>
<tr>
<td>Equipment</td>
</tr>
<tr>
<td>Subcontracts</td>
</tr>
<tr>
<td>Interest</td>
</tr>
<tr>
<td>Rent</td>
</tr>
<tr>
<td>Utilities</td>
</tr>
</tbody>
</table>

Indirect Costs – Not specific to a sponsored project.

Examples:

- Utilities
- Building Maintenance
- Building Depreciation
- Care of WSU grounds
- Custodial

What are F&A Costs?

- Incurred for common or joint objectives;
- Identifiable at a high level, but not easily identifiable at a project or activity level; and
- Benefit the total institution.
For Research at WSU
And
For Other Sponsored Activities

Organized Research
Separately budgeted “Project” accounts
to record the activity for our sponsors:
• Federal government,
• State governments
• Corporations, Foundations, Businesses

Cost Sharing – University Costs towards the Project
All contributions towards accomplishing a sponsored project, including Cash and In-kind.
Also called WSU’s ‘Match’
Personnel Costs are generally the majority of Cash Costs (Cost Share) borne by the University.

Necessary, Allowable, Verifiable and Measurable Resources used.
Calculating the Base for the F&A Rate
Modified Total Direct Cost (MTDC)

MTDC include Total Direct Costs minus:
• Cost of equipment
• Buildings
• Patient care
• Off-campus rents
• Training Stipends
• Student Tuition / Scholarships and
• Sub-contracts over $25,000
Includes cost sharing in Organized Research

Question for the Audience:
Does Cost Share help our F&A Rate?

Calculation of Research F&A Rate

\[
\text{F&A Costs (overhead)} = \text{F&A Rate} \\
\text{Organized Research Base (incl. University Research)}
\]

Sponsored project costs
Overdrafts
Committed Cost Sharing

University-funded competitive awards

Sponsored Project – Example – Budget Statement

Postal Code: 84696-0130

<table>
<thead>
<tr>
<th>Description</th>
<th>Budget</th>
<th>Time</th>
<th>Received</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>01-02-09-01</td>
<td>10,000</td>
<td>01/01/01</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>01-02-09-02</td>
<td>20,000</td>
<td>01/02/01</td>
<td>20,000</td>
<td>20,000</td>
</tr>
<tr>
<td>01-02-09-03</td>
<td>30,000</td>
<td>01/03/01</td>
<td>30,000</td>
<td>30,000</td>
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<tr>
<td>01-02-09-04</td>
<td>40,000</td>
<td>01/04/01</td>
<td>40,000</td>
<td>40,000</td>
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<tr>
<td>01-02-09-05</td>
<td>50,000</td>
<td>01/05/01</td>
<td>50,000</td>
<td>50,000</td>
</tr>
</tbody>
</table>

Horizontal Balance:
80,000.00

Direct Costs:
- Personnel:
  - 01-02-09-01: 10,000
  - 01-02-09-02: 20,000
  - 01-02-09-03: 30,000
  - 01-02-09-04: 40,000
  - 01-02-09-05: 50,000
- Equipment:
- Materials:
- Sub-contracts:
- Other Direct Costs:

Indirect Costs:
- Research Administration:
- Building:
- Equipment:
- Other Indirect Costs:

Total Indirect Costs: 8,000.00

Total Budget: 88,000.00

Project Narrative: [Narrative Description]

Project Objectives: [Objectives Description]

Project Outcomes: [Outcomes Description]
Sponsored Project – Example View in AIS:

Simple Sponsored Program Project Example

One Project’s MTDC:

Total Direct Costs: $130,000
  • Salaries/benefits: $95,000
  • Supplies: $5,000
  • Scholarships: $10,000
  • Capital Equipment: $20,000

Modified Total Direct Costs = ?

Simple Sponsored Program Project continued

Total Direct Costs: $130,000
  • Salaries/benefits: $95,000
  • Supplies: $5,000
  • Scholarships: $10,000
  • Capital Equipment: $20,000

Modified Total Direct Costs:
  = $130,000 - $10,000 - $20,000
  = $100,000 MTDC
**Rate**

$ \frac{\text{Research Pool Expenses}}{\text{Organized Research Base}} $ □

52% Rate = $52 / $100

Example F&A Rate

---

**Simple Sponsored Program Project continued**

Modified Total Direct Costs = $100,000

- Accounting System (the mainframe) calculates and applies the 52% F&A Rate
  - When the project’s rate is Organized Research 52%
  - And
- Posts the F&A Expense to ‘Object 13.’
- Sponsored Programs personnel periodically review and confirm.

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**What is the context – Why is there F&A?**

Within the University – Various Projects
Why are there F&A Rates?

To formalize reimbursement of University overhead costs from sponsors of research, instruction and training.

Context: Federal Cost Accounting

Reference: Uniform Guidance subsection B.1

Example:
A lab is used in several projects.

• If records could finitely track, then we could differentiate between the uses.

Estimation is used when it is not possible to track:
• Joint Costs are pooled and allocated.
  F&A costs are not charged as a direct cost.

How are F&A costs handled?
• Calculated indirectly to represent a return or recovery of costs already incurred by the institution.

Direct Costs

Costs that can be identified specifically with a particular project.

Direct Costs – Costs can be directly assigned to an activity with relative ease and a high degree of accuracy.
What are Examples of F&A Costs?

- Janitorial Services
- Minor Repairs and Renovation
- Buildings & Grounds Maintenance
- Physical Plant
- Environmental Safety
- Facility Planning
- Utilities

What are F&A Costs?

- Research Compliance
  - Animal Care Review
  - Human Subjects Review
  - Office of Research Operations and Support
  - Sponsored Programs Services
- Purchasing
- Payroll
- Human Resources
- Accounts Payable
- General Accounting
What is an F&A Rate?

- A percentage.
- Ratio of the Indirect portion to the Direct costs.

If the F&A rate is 50% -
- for every $1 spent on research -
- 50 cents of cost is incurred by the University.

Why don’t we charge the sponsor 50 cents directly?

F&A is difficult to estimate project-by-project.
The F&A agreement establishes that the federal government or sponsor will pay its fair share of total costs.

FY2017 F&A Rates

<table>
<thead>
<tr>
<th>Location</th>
<th>FY17</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-Campus Research</td>
<td>52%</td>
</tr>
<tr>
<td>Off-Campus Research</td>
<td>26%</td>
</tr>
<tr>
<td>On-Campus Instruction</td>
<td>57.5%</td>
</tr>
<tr>
<td>Off-Campus Instruction</td>
<td>26%</td>
</tr>
<tr>
<td>On-Campus Other</td>
<td>36%</td>
</tr>
<tr>
<td>Off-Campus Other</td>
<td>26%</td>
</tr>
</tbody>
</table>

WSU negotiated F&A Rates

<table>
<thead>
<tr>
<th>From</th>
<th>To</th>
<th>Rate</th>
<th>Location</th>
<th>Applicable To</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1/15</td>
<td>6/30/16</td>
<td>51%</td>
<td>On-Campus</td>
<td>Organized Research</td>
</tr>
<tr>
<td>7/1/16</td>
<td>6/30/17</td>
<td>52%</td>
<td>On-Campus</td>
<td>Organized Research</td>
</tr>
<tr>
<td>7/1/17</td>
<td>6/30/19</td>
<td>53%</td>
<td>On-Campus</td>
<td>Organized Research</td>
</tr>
<tr>
<td>7/1/15</td>
<td>6/30/19</td>
<td>26%</td>
<td>Off-Campus</td>
<td>Organized Research</td>
</tr>
<tr>
<td>7/1/15</td>
<td>6/30/19</td>
<td>36%</td>
<td>On-Campus</td>
<td>Other Sponsored Activity</td>
</tr>
<tr>
<td>7/1/15</td>
<td>6/30/19</td>
<td>26%</td>
<td>Off-Campus</td>
<td>Other Sponsored Activity</td>
</tr>
<tr>
<td>7/1/19</td>
<td>Until Amended</td>
<td>Use same rate &amp; conditions cited for FY 6/30/2019</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Cost Accounting Standards

Consistency
Reasonable Allowable Allocable

Context: Federal Cost Accounting

How is the F&A Rate calculated?
Institutions that wish to be reimbursed for Facilities and Administrative costs -

• Two methods of calculating an F&A rate:
  • Long Form: Required for institutions expending more than $10 million on Federal grants and contracts annually.
  • Short Form: Simpler allocation methodologies used by institutions that have <$10 mil research expenditures.

Federal Uniform Guidance
• Guide to help universities and institutions properly cost projects and calculate F&A costs.
  • Contains the consolidated federal cost principles.
  • Sets basis (UG, Appendix III to Part 200)
  • Cost Allowability and
  • Cost Accounting Standards.
  • Defines Direct and Indirect (F&A) costs.
  • Defines methodologies for allocating F&A to direct functions. (Allocating = %)
**Overall Timeline for F&A Rate process**

- Start of Fiscal Year
- Space Usage Survey
- End of Fiscal Year
- Financial Report
- F&A process: Calculate & submit

**F&A Rate Calculation**

1. Start: Operating expenses in financial statement.
2. Adjust to exclude unallowable costs.
3. Map to Federal cost pools/groups and bases.
4. The indirect costs are dependent on dept. personnel providing space utilization, property inventory and other data to allocate:
   - Building Depreciation
   - Equipment Depreciation
   - Operations and Maintenance
   - Interest
5. Allocate indirect costs to direct cost pools.

**Identify & Group similar activities**

- INST Instruction
- DR Departmental Research
- DA Departmental Administration
- OR Organized Research
- OSA Other Sponsored Activities
- O&M Operations and Maintenance
- OIA Other Institutional Activities
- GA General Administration
- SPA Sponsored Programs Administration
F&A Cost Calculation

- Total Costs
  - Financial Statement Operating Expenses
  - Capitalized Items
  - Federal Expenditures
  - Unallowable Costs

- Exclusions
  - Less: Credits or
  - Plus: Allowable Interest

- Adjustments
  - And Add-in any recorded Cost Share.

- Modified Total Direct Costs

F&A COST CALCULATION - OVERVIEW

- F&A Cost Pools
  - Building & Equipment Depreciation
  - Operations & Maintenance
  - General Administration
  - Student Services
  - Sponsored Projects Administration
  - Library
  - Departmental Administration

- F&A Costs Allocated to
  - Instruction
  - Organized Research
  - Other Sponsored Activities

- Base
  - MTEC Instruction
  - MTEC Organized Research
  - MTEC Other Sponsored Activities

F&A Costs

* Key Rate Components heavily dependent on Department Information:

<table>
<thead>
<tr>
<th>Research rate components</th>
<th>On Campus</th>
<th>Off Campus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building use</td>
<td>7.1 points*</td>
<td></td>
</tr>
<tr>
<td>Equipment use</td>
<td>2.6 points*</td>
<td></td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>12.8 points*</td>
<td></td>
</tr>
<tr>
<td>Interest</td>
<td>2.2 points*</td>
<td></td>
</tr>
<tr>
<td>Library</td>
<td>0.6 points</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td>0.7 points</td>
<td></td>
</tr>
<tr>
<td>General Administration</td>
<td>9.2 points</td>
<td>9.2 points*</td>
</tr>
<tr>
<td>Department Administration</td>
<td>14.2 points*</td>
<td>14.2*</td>
</tr>
<tr>
<td>Sponsored Proj. Administration</td>
<td>2.6 points</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Total: 52 points                 26.0

Total from Key Dept data:       38.9 points*  14.2

Administrative component is capped at 26%.
F&A Rate Application Complexities

Barriers to charging the full F&A rate

- Sponsor limitations:
  - Example USDA 10%
  - Ex. Training Grant 8%
  - Ex. Foundations (common with humanities programs)

- TDC Base

Know that F&A Waivers are the exception.

Question for the Audience: Why?

Office of Research

F&A Returns
Expense to Revenue
% Distribution

Architectural design view of the PACCAR Inc. (www.paccar.com)
Environmental Technology facility, also known as the Clean Technology Lab Building, occupancy started in October 2015.

Is F&A Important to Me?

- Where does my paycheck come from?
- What is the source of funds for the Building Utilities?
- How are Support Staff paid?
- How are costs for shared purposes tied to the benefiting functions?
- What funding supports Research Infrastructure?
Why is the F&A rate important?

Facilities and Administrative Costs
- Incurred for common or joint purposes;
- Identifiable at a high level;
- Benefiting the total institution.
F&A Rate in Action

• Projects for external sponsors have direct costs and indirect costs, with Indirects being recovered through an F&A percentage.
• F&A recoveries support the University.
• QUARTERLY F&A recovery distributions.

The F&A rate reimburses WSU.

Heavily dependent on our accounting consistency.

Ensure that there are no special accounting practices or treatments for sponsored projects – and that all costs are consistently treated.

What will have large impact on our next F&A rate negotiation?
What will impact our next F&A rate negotiation?

- PACCAR and other new research facilities
- WSU Spokane and Everett Growth
- Grand Challenges and the WSU Research Agenda

What are F&A Costs?

Pooled Expenses

F&A Questions?

Federal Uniform Guidance: Direct & Indirect (F&A) Costs

<table>
<thead>
<tr>
<th>Direct - Major Functions</th>
<th>F&amp;A (Indirect or Overhead)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction/Dept. Research</td>
<td>Depreciation</td>
</tr>
<tr>
<td>Organized Research §200.87</td>
<td>Interest</td>
</tr>
<tr>
<td>Other Sponsored Activity</td>
<td>Departmental Administration</td>
</tr>
<tr>
<td>Other Institutional Activity</td>
<td>Operations &amp; Maintenance</td>
</tr>
<tr>
<td>Other Institutional Activity</td>
<td>Library</td>
</tr>
<tr>
<td>Sponsored Programs Administration</td>
<td>General Administration</td>
</tr>
</tbody>
</table>
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Karen Breese kbreese@wsu.edu
F&A Cost Specialist
509-335-2056

References

- Uniform Guidance, formerly OMB A-21, Relocated to 2 CFR, Part 220
- OMB A-133, Audits of States, Local Governments and Non-Profit Organizations
- DHHS Division of Cost Allocation College and University Long Form Cost
- DHHS Division of Cost Allocation Frequently Asked Questions
- State of Washington and WSU:
  - Bylaws of the Board of Regents of Washington State University & Executive Policy Manual
  - State Administrative and Accounting Manual (SAAM) – State of Washington
  - Division of Cost Allocation (DCA) – Washington Statewide Cost Allocation Plan (SWCAP)
  - Cost Accounting Standards Disclosure Statement (DS-2)
- Current negotiated federal F&A rate agreements between WSU and the Department of Health & Human Services, through WSU’s cognizant negotiation agency: the Division of Cost Allocation
- Postsecondary Education Facilities Inventory and Classification Manual, for Room Use codes.