

Facilities and Administrative Costs



University of Alaska Fairbanks

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Statewide Cost Accounting

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What We'll Cover Today

- Basic Overview
- Unallowable Costs
- Cost Pool Allocation
- Recent Changes to A-21
- How to Navigate A-21
- Program Codes
- Functional Space Use
- Rate Status

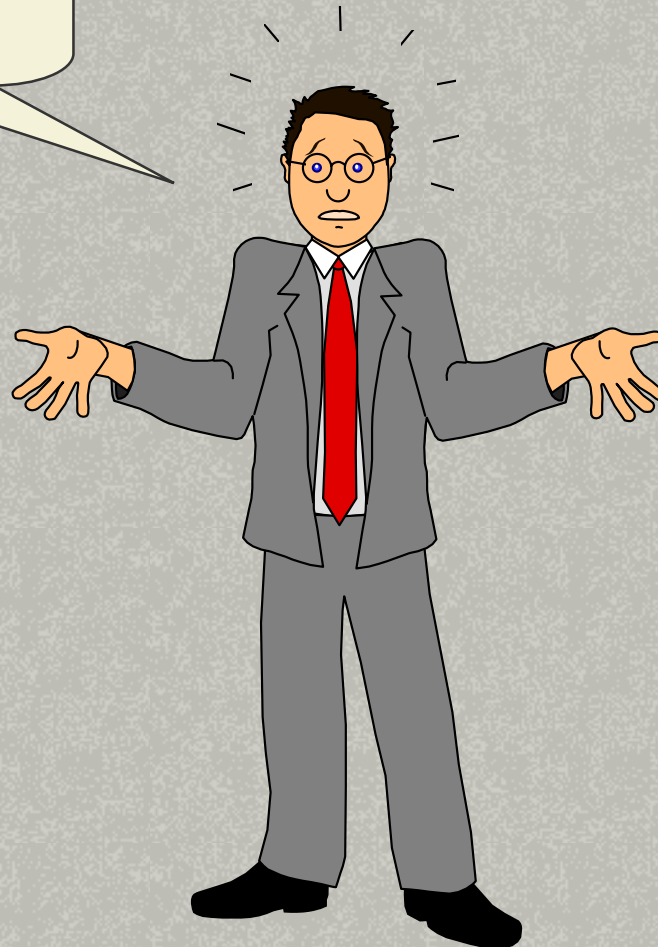
Basic Information & Overview



F & A Rate Development

What's in a Name?

What does F&A stand for?





Synonyms

- Indirect Costs
- Institutional Costs
- Overhead Costs
- Facilities and Administrative Costs
- F&A Costs

Regulation



■ Federal Circulars

- <http://www.whitehouse.gov/omb/circulars/index.html>
- OMB Circular A-110
 - Administrative Requirements for federal grants and other agreements with institutions of higher education ...
- OMB Circular A-21
 - Cost Principals for Educational Institutions



Regulation

- Cost Accounting Standards

- Federal standards that are part of Federal Acquisition Regulations (FAR)
- http://www.access.gpo.gov/nara/cfr/waisidx_01/48cfrv7_01.html#9900 Cost Accounting Standards Board





Federal Policy for Funding Research

- Full-Cost Reimbursement
 - Direct costs, and
 - Negotiated F&A (Indirect) costs





Facilities and Administrative Costs Recovery

- Reimbursement of facilities and administrative costs incurred in conjunction with the performance of services under a grant or contract.



F&A Rate Calculation

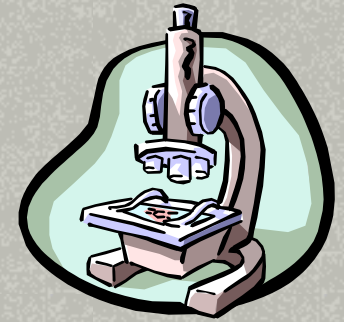
- Rate =
 - Indirect Costs
Direct Costs
- OR
- Pool Costs
MTDC Base



Total Costs

- Direct Costs
- Indirect Costs
- Excluded Costs
 - Modified Total Direct Cost (MTDC) exclusions
 - Unallowable Pool Costs

Direct Costs



- Those costs that can be identified specifically with a particular project, an instructional activity, or any other institutional activity.
- Those costs that can be directly assigned to such activities relatively easily and with a high degree of accuracy.



Direct Cost Requirements

- Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect.
- Costs treated as direct costs for sponsored agreements must be treated as direct costs for all activities.



Direct Cost Classifications

- Organized Research (OR)
- Special Rates: SFOS Ship, Poker Flat, Arctic Region Super Computer
- Other Sponsored Activities (OSA)
- Instruction
- Other Institutional Activities (OIA)
 - Public service
 - Auxiliaries
 - Unallowable activities
 - All other activities



Excluded Costs

- MTDC Exclusions
 - Equipment
 - Capital expenditures
 - Charges for patient care
 - Tuition remission
 - Long-term space rental costs
 - Scholarships and fellowships
 - Subcontracts and sub-grants > \$25,000



Example: Modified Total Direct Cost Base for Research

Restricted Fund Research	\$XXXX.XX
Unrestricted Fund Research	<u>XXXX.XX</u>
	\$XXXX.XX
Less Exclusions:	
Equipment (> \$2,500)	(XXX.XX)
Tuition remission	(XXX.XX)
Sub-award expenditures > \$25K	(XXX.XX)
Long-term space rentals	<u>(XXX.XX)</u>
MTDC Research Base	XXXX.XX

Basis Defined in Banner

Indirect Cost Basis:

MTDC Modified Total Direct

Indirect Cost Date Code:

FRN513 UAE Research Neg. 51.3%

Options View Apply-To Information

Basis Code Validation Form FRVBASI 4.0 (PROD)

COA	Basis Code	Description	Type	Effective Date	Termination Date	Nchg Date
B	2MTDC	Modified Total Direct Eff. FY	I	29-JUN-2001		
B	EVOS	EVOS Special TDC	I	01-JUL-1994		30-OCT-1998
B	EVOS	EVOS Special TDC	I	30-OCT-1998		
B	MTDC	Modified Total Direct	I	01-JUL-1979		11-NOV-1998
B	MTDC	Modified Total Direct	I	11-NOV-1998		06-AUG-1999
B	MTDC	Modified Total Direct	I	06-AUG-1999		

■ Basis – Defines which direct costs are subject to Facilities & Administration Costs

Apply To

Find 2MTDC%

Atvo	From Acct	To Acct	Locn From	Locn To	Exclud
60					N
70					N
80					N
	3010	3010			Y
	3022	3022			Y
	3026	3026			Y
	3100	3100			Y
	3115	3115			Y

Find OK Cancel



Indirect Costs

- Costs incurred for common or joint objectives.
- Costs which cannot be identified readily and specifically with a particular sponsored project, instructional activity, or any other institutional activity





Indirect Cost Classifications

■ Facilities

- Depreciation, use allowances & interest
- Operations and maintenance
- Library costs

■ Administration

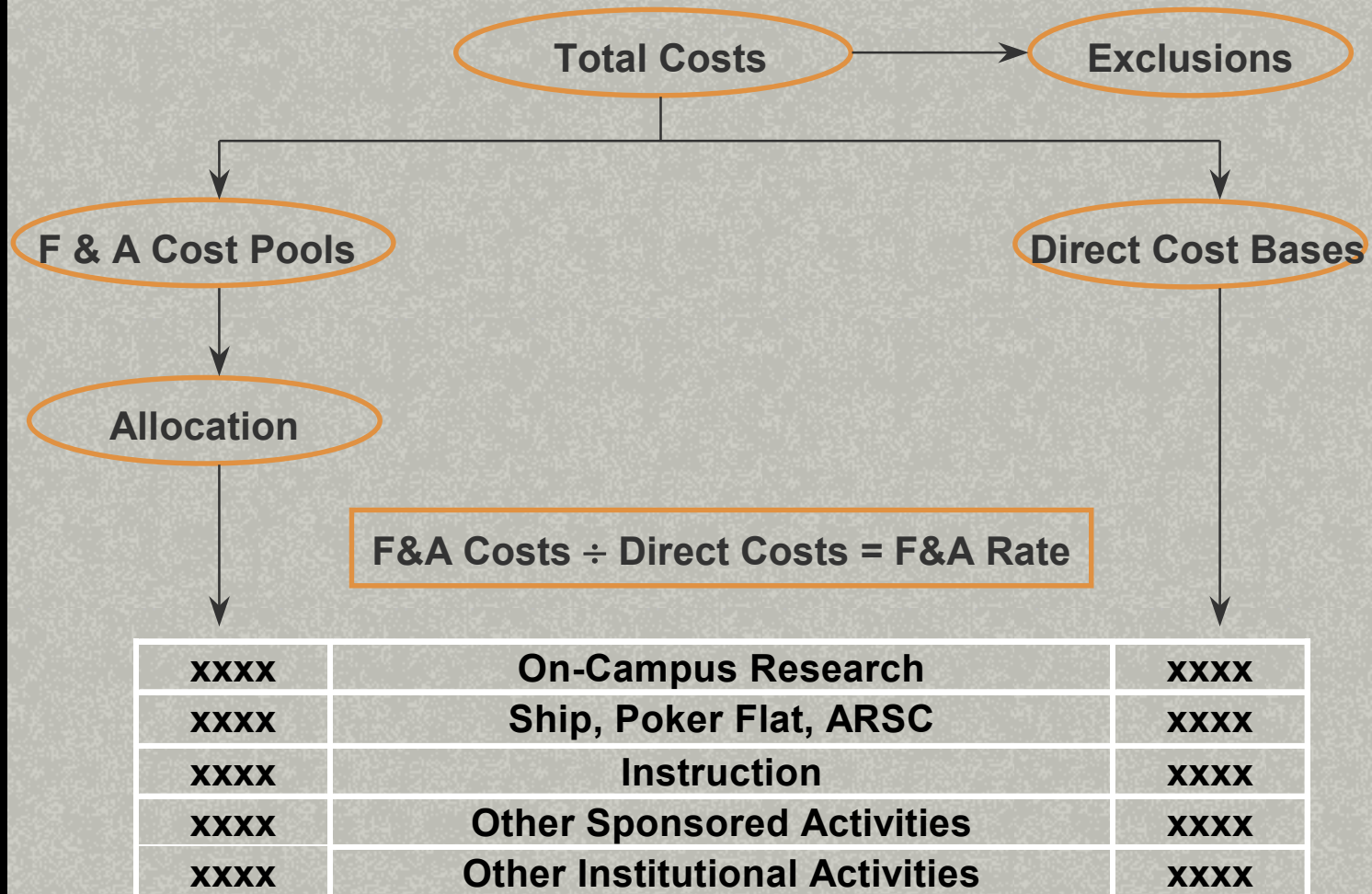
- Institutional and departmental administration
- Sponsored projects administration
- All other allowable non-facilities indirect costs

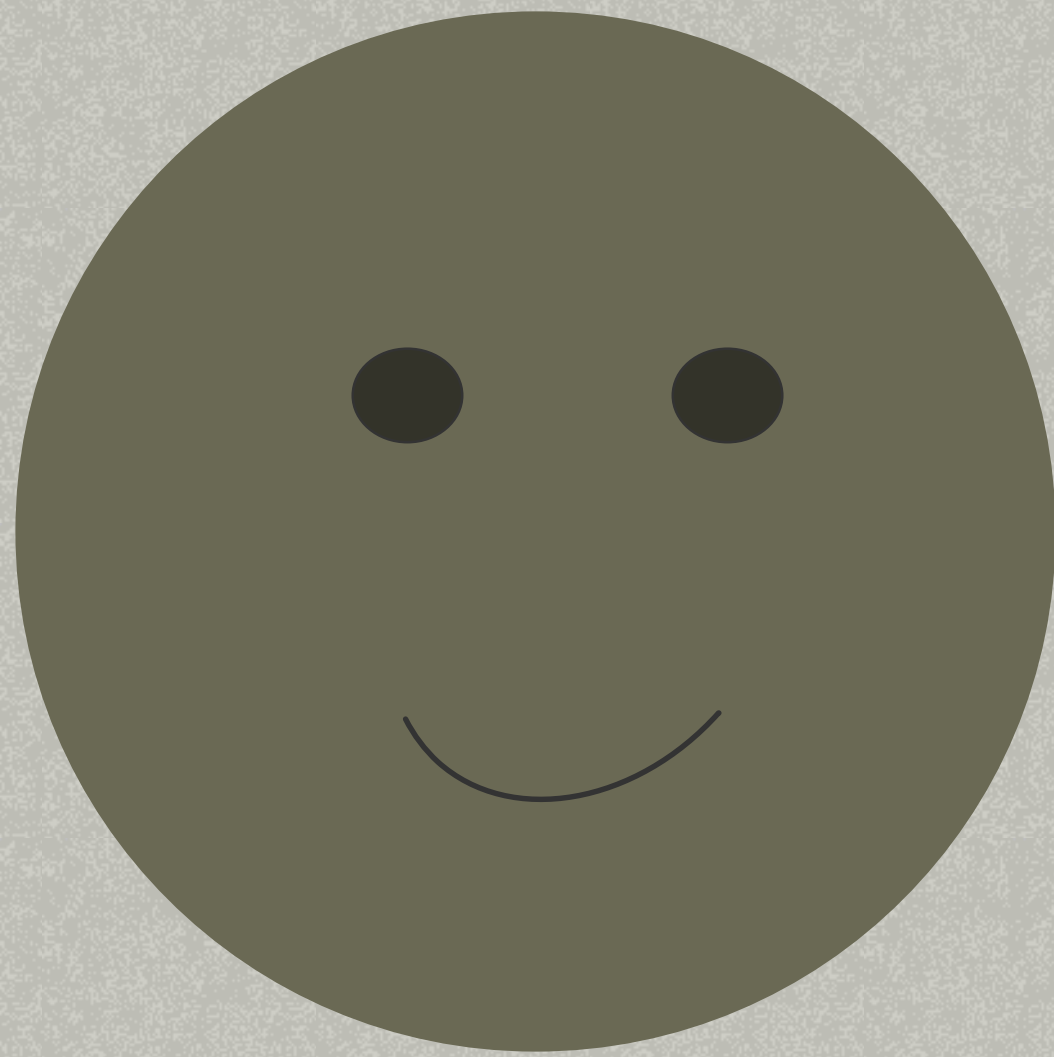


Examples of Indirect Costs

- Physical Plant Costs
- Utilities/Custodial Services
- Library Costs
- Accounting/Payroll/Personnel Offices
- Purchasing/Grants & Contracts Offices
- Computer/Communications Centers
- Central/Campus/Dept. Administration
- Costs to prepare proposal not pursuant to a specific requirement of an existing contract

F&A Cost Rate Development





Unallowable Costs





Unallowable Costs

- Certain unallowable costs cannot be charged to federal sponsored projects
- Treatment for F&A depends on if
 - Cost is F&A or direct cost and
 - Cost is activity or expense
 - Expenses
 - F&A pool cost then excluded from F&A rate calculation
 - Direct costs remains in direct base
 - Activity
 - Pool or base costs then assigned to OIA



Examples of Unallowable Costs

■ Expenses

- Entertainment
- Advertising
- Fines and penalties
- Civic and community club memberships

■ Activities

- Alumni support & activities
- Fund raising activities
- Public relations activities



Significant Changes for FY02-FY04

- Change in Definition of Research
- Inclusion of Long-Term Equipment Rentals in Base
 - These expenses are now subject to F&A on restricted funds
- Inclusion of Loss/(Gain) on Disposal of Equipment
- Componentization of Buildings



F&A Rate Proposal Process

- F&A Rates are Developed on a Three Year Cycle
 - Negotiate predetermined rates
 - Total timeline – development through negotiation
 - September to June or July
- Develop Base Year Model
 - FY00
- Project Proposal Year from Previous Model
 - FY02 from FY00 base year model
 - FY03 from FY02 projection year model
 - FY04 from FY03 projection year model



F&A Rate Proposal Process

- Proposal Submission to ONR
- DCAA Audit
- Negotiation
- ONR Headquarters Review
- Rate Agreement

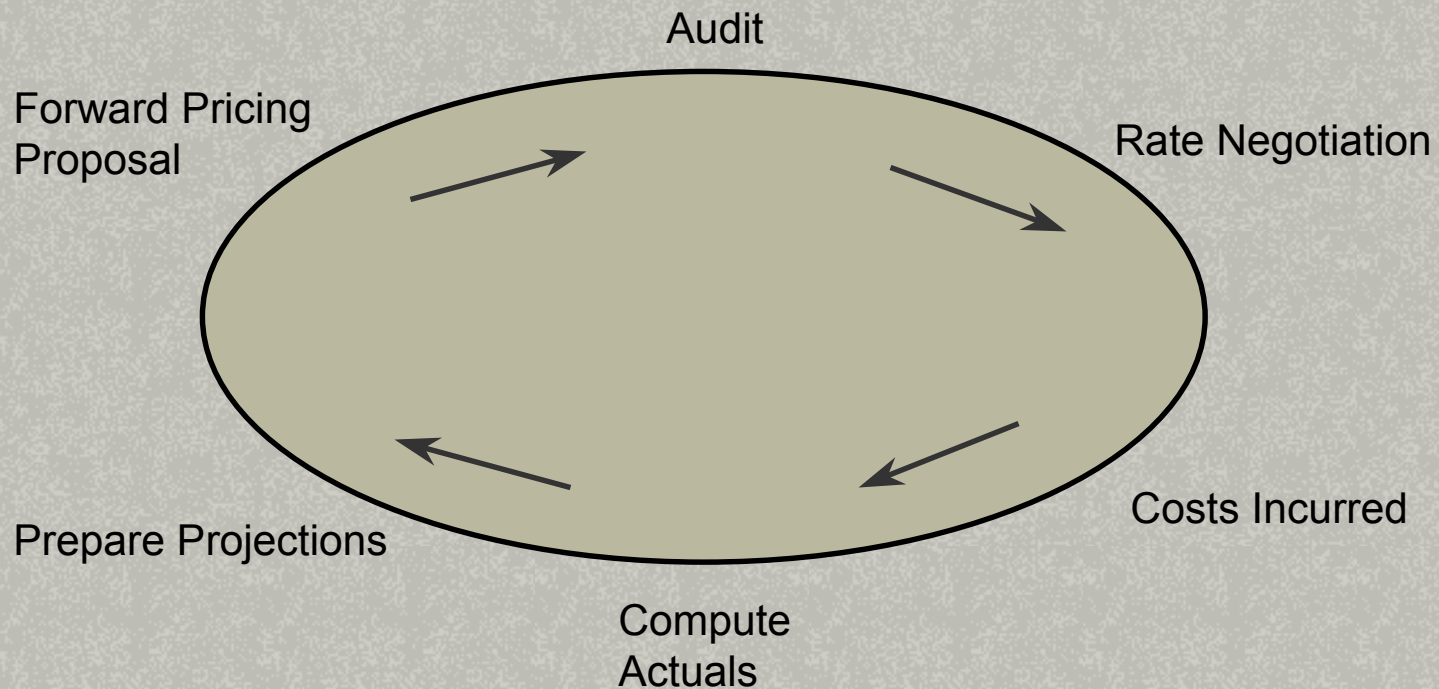


Negotiation Team

- ONR Indirect Cost Division Representative
- ONR Contracting Officer
- DCAA Audit Manager
- UA Representatives



F&A Cost Negotiation Cycle





Negotiation Objectives

- University's

- Maximize recovery potential
- Set rates at optimal levels

- Government's

- Compliance with cost principles
- Fair rates



Negotiation Issues

- Number of Rate Units
- Type of Rate Established
- Rate Levels
- Miscellaneous Conditions:
 - Rate period
 - Changes in cost allocation procedures
 - Audit adjustments
 - Service centers

Audit Scrutiny

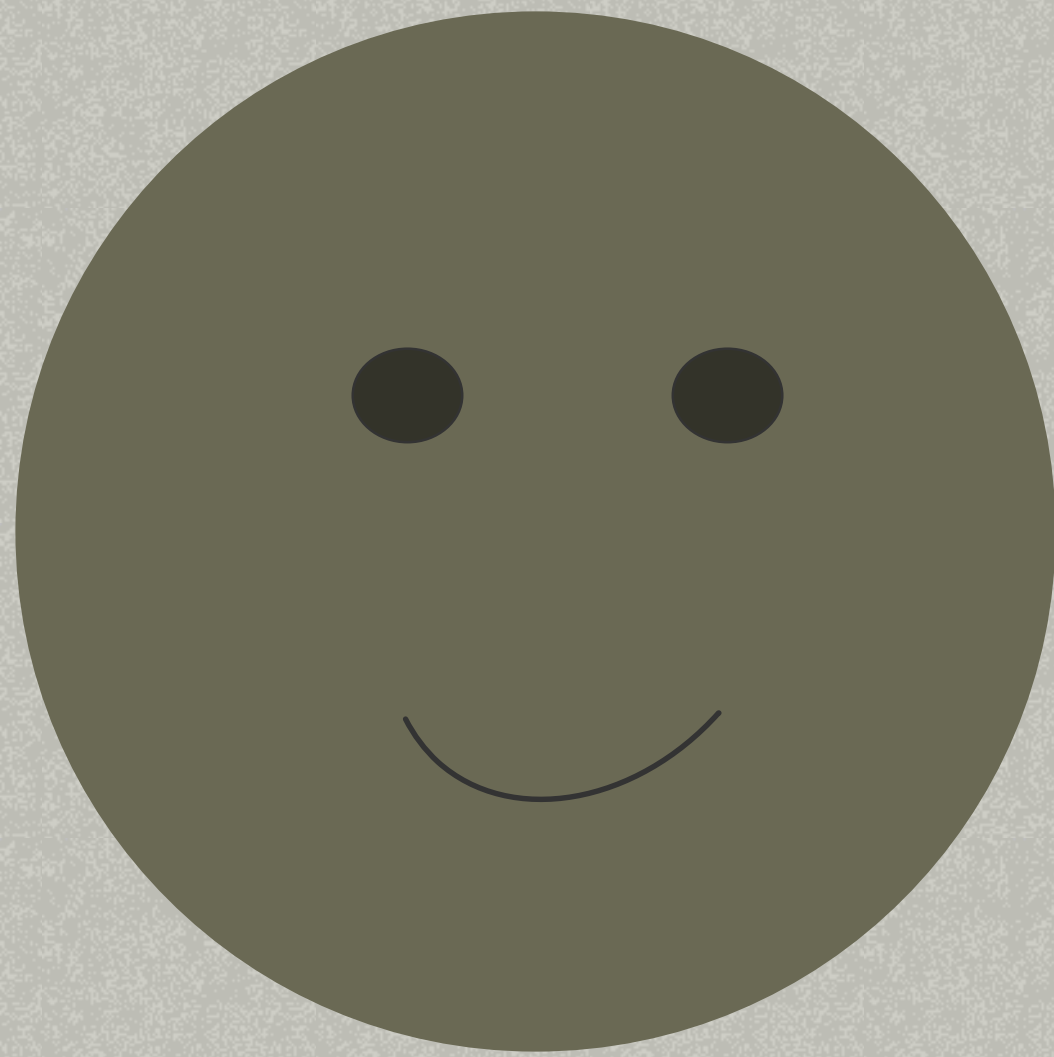
- DCAA Forward Pricing Proposal Audit
- DCAA Final Proposal & Incurred Cost Audit
- External A-133 Audit
- DoD Inspector General's A-133 Audit Review
- Financial Statement Audit by KPMG
- Program Specific Audits



Audit Scrutiny

- ONR Property System Review
- ONR Procurement System Review
- DoD Pension Benefit Review
- DoD Risk Management/Insurance Review
- Internal Audits





Cost Pool Allocation





Indirect Costs

- Costs incurred for common or joint objectives.
- Costs which cannot be identified readily and specifically with a particular sponsored project, instructional activity, or any other institutional activity



F&A Cost Pools

■ Facilities

- Depreciation, use allowances & interest
- Operations and maintenance
- Library costs

■ Administration

- Institutional General Administration
- Departmental administration
- Sponsored projects administration
- Student Services
- All other allowable non-facilities indirect costs



Indirect Cost Allocation Methodology

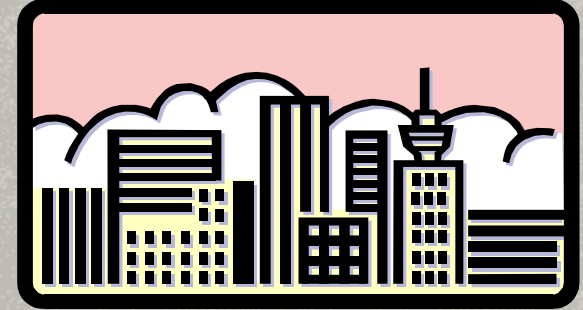
- Depends on Pool
- Specified in A-21
- Examples
 - Space use
 - FTE
 - Specific identification
 - MTDC
 - Restricted funds
 - Circulation statistics



Depreciation

- No Depreciation
 - For federally funded buildings or equipment
 - Not in use items

Depreciation



■ Buildings

- Aggregate cost of construction or renovation
 - Straight-line method
 - 50 year life (2% per year)
- Componentization – construction & renovation costs broken down into components
 - Straight-line method
 - Useful lives vary by component – 18 to 50 years
- Allocated based on space use as determined by biannual survey
 - Room-by-room basis



Depreciation

■ Components

- Construction exterior
- Construction interior
- Elevators
- Fire protection
- Floor cover
- Foundation
- Heating ventilation
AC
- Lighting electrical
- Piping/plumbing
- Roof cover
- Roof structure
- Site preparation
- Steel frame
- Walls exterior
- Fixed equipment



Depreciation

- Infrastructure (IOTB)
 - Total cost of improvement
 - Straight-line method
 - 50 year useful life
 - Componentization – improvement broken down into components
 - Straight-line method
 - Useful life varies by component – 10 to 35 years
 - Allocated to benefiting function if identified
 - Allocated based on employee/student FTE
 - Employee portion further allocated based on salaries

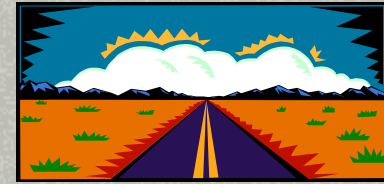


Depreciation

■ Components

- Utilities – water, sewer, electric, steam
- Utilities specific to unit or building
- System networks
- Road and road systems
- Roads – off campus location

Depreciation



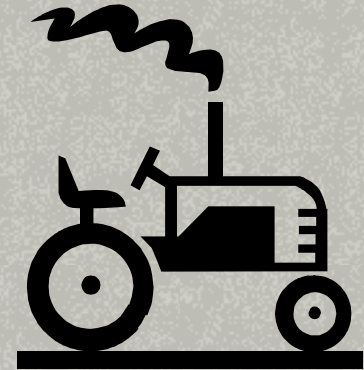
- Improvements Other Than Buildings (Other Capitalizable Assets)
 - Total cost of other capitalizable assets
 - Straight-line method
 - 25 year useful life
 - Componentization – asset broken down into components
 - Straight-line method
 - Useful life varies by component – 15 to 35 years
 - Allocated to benefiting direct and indirect activities based on subsidiary records that include information concerning location and usage for each item



Depreciation

- Components
 - Landscaping
 - Parking, Walkways, Stairs, Disability
 - Power Plant
 - Specific Improvements
 - Other

Depreciation

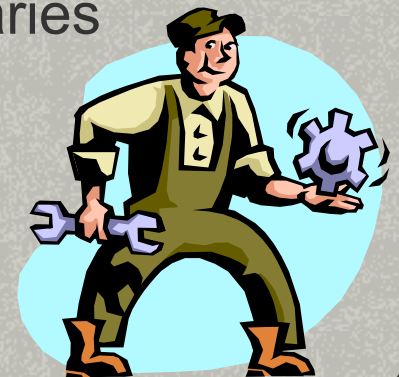


■ Equipment

- Useful life depends on asset class
- Revised useful lives for FY02-FY04
- Allocation
 - Depreciation summarized by department
 - Responsible organization code on property system
 - Total allocated consistent with department space
 - Responsible organization code should roll up to D-Level organization code with space survey data that reflects equipment use
 - Ideally would like to use room-by-room allocation based on location of equipment and space survey

Operations & Maintenance

- Identify Specifically with Cost Function
 - Allocate to that function
- Identify with Building
 - Allocate based on space survey
- Identify with Infrastructure (Improvements Other Than Buildings)
 - Allocate based on FTE, employee salaries
- All other
 - Allocate based on total square feet





Administrative Pools

- General & Administrative
 - Allocation based on modified total costs
- Sponsored Projects Administration
 - Allocation based on restricted expenditures
- Departmental Administration
 - Allocation based on modified total costs by department

Library

Student Services



■ Library

- Allocation is based on circulation statistics
- Three user groups
 - Employees – professional salaries & wages
 - Students - instruction
 - Other – other institutional activities

■ Student Services

- Allocated entirely to instruction

F&A Pool Cost Allocation

	Direct Cost Bases				F&A Cost Pools				
	<u>IN</u>	<u>OR</u>	<u>OSA</u>	<u>OIA</u>	<u>O & M</u>	<u>G & A</u>	<u>SPA</u>	<u>DA</u>	<u>Library</u>
Modified Total Direct Costs	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$XX	\$XX	\$XX	\$XX	\$XX
Depreciation	XX	XX	XX	XX	XX	XX	XX	XX	XX
Oper & Maint	XX	XX	XX	XX	(XX)	XX	XX	XX	XX
General Admin	XX	XX	XX	XX		(XX)	XX	XX	XX
Sponsored Projects Adm	XX	XX	XX	XX			(XX)		
Dept. Admin	XX	XX	XX	XX				(XX)	
Library	XX	XX	XX	XX					(XX)
Allocated Costs	\$XXX	\$XXX	\$XXX	\$XXX	\$0	\$0	\$0	\$0	\$0



Limitations on Cost Collection

■ By Law

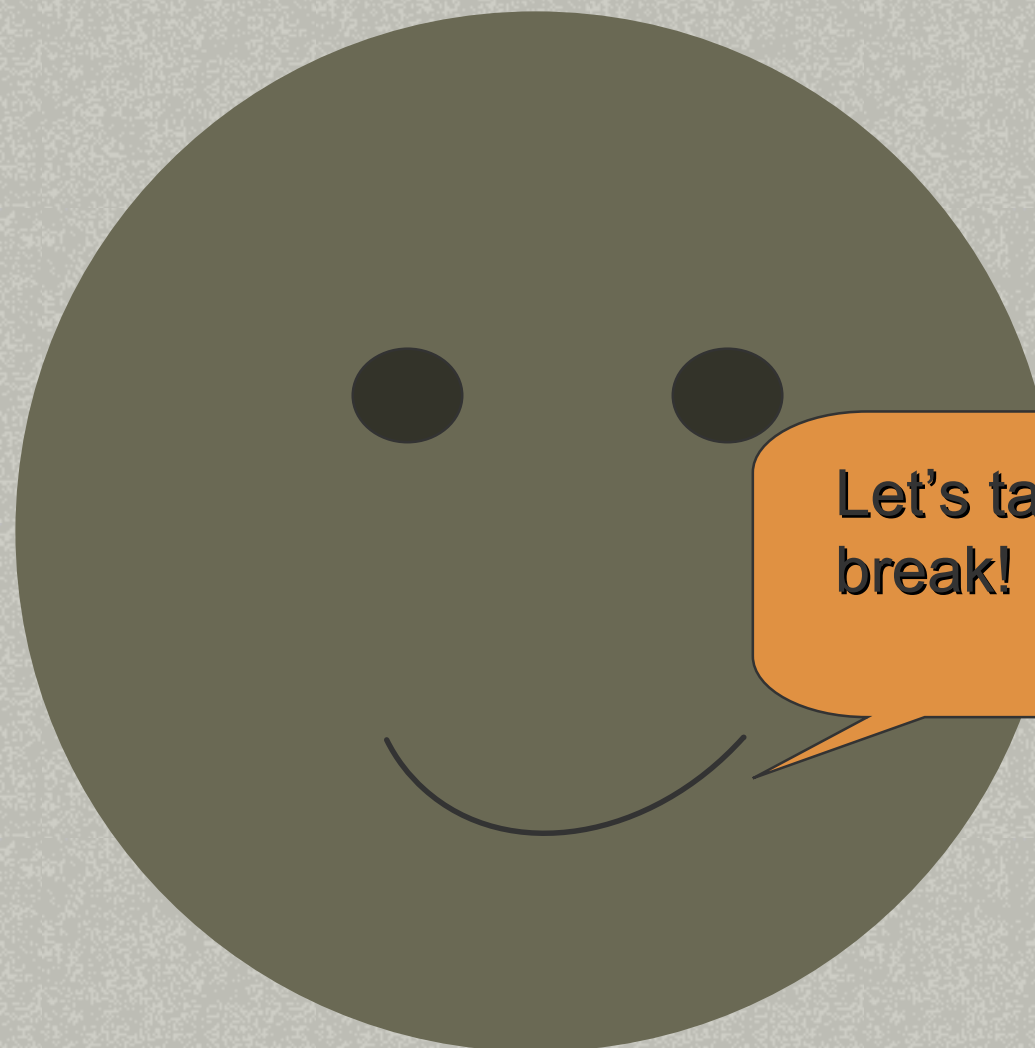
- 26% Administrative Cap
- Faculty administrative salaries limited to 3.6%
- Limited by statute

■ Allocable Costs not Allowable

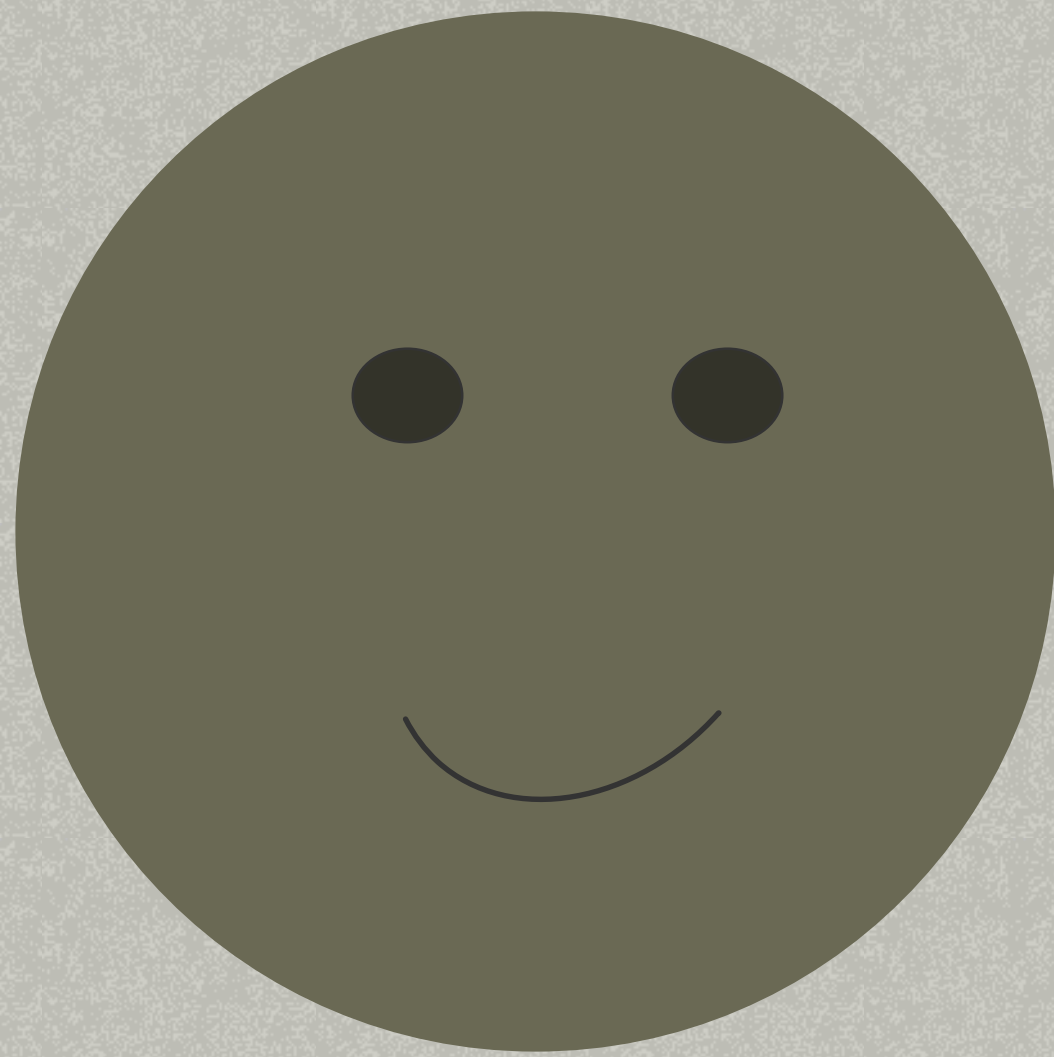
■ Waived F&A

■ FY00 UAF

- Organized research rate 51.3% - actual recovery ratio 37.1%
- OSA rate 36.3% - actual recovery ratio 10.1%
- Sponsored Training 30.0% - actual recovery ratio 8.6%



**Let's take a short
break!**





F&A Cost Recovery

Project "A"

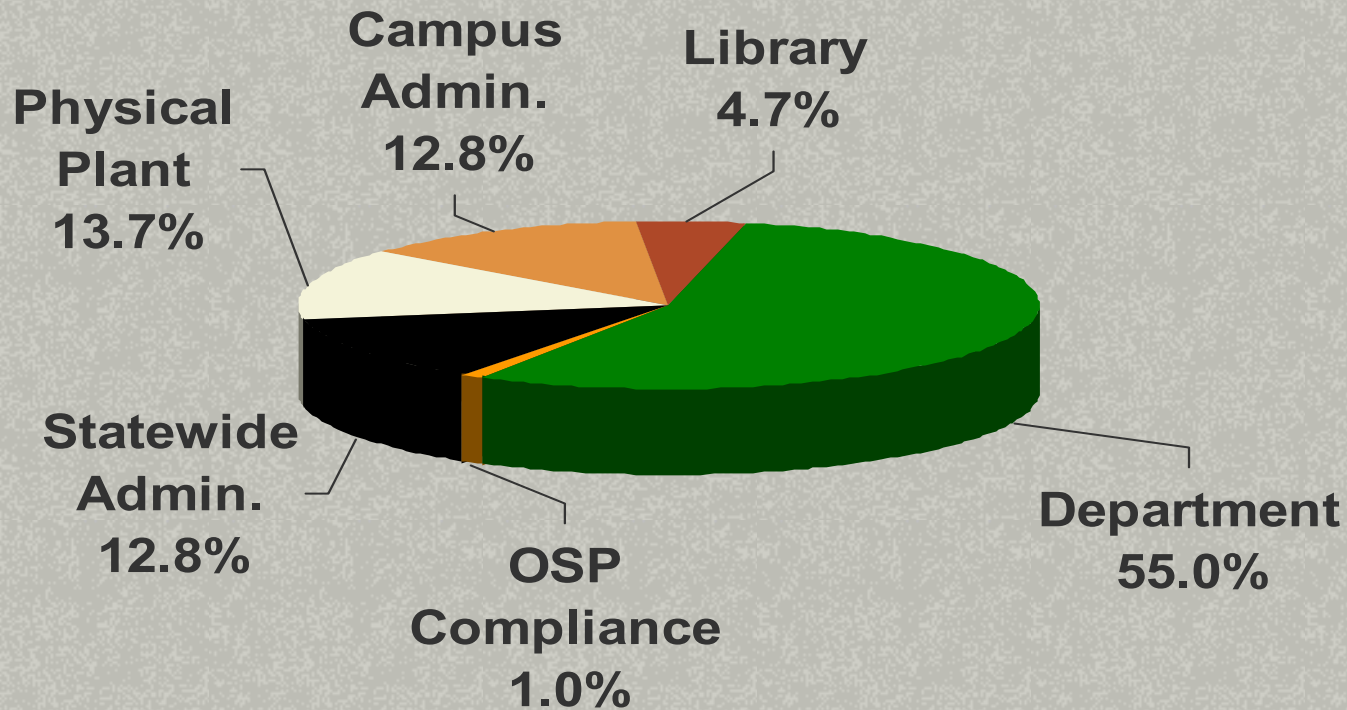
Direct Costs	\$10,000
F&A Rate	<u>50%</u>
F&A Cost Recovery	<u>\$ 5,000</u>



F&A Recovery Allocation

- Varies by Major Administrative Unit (MAU)
- By Department
- Campus Allocations Established by Campus Administration

FY02 UAF Default F&A Recovery Allocation



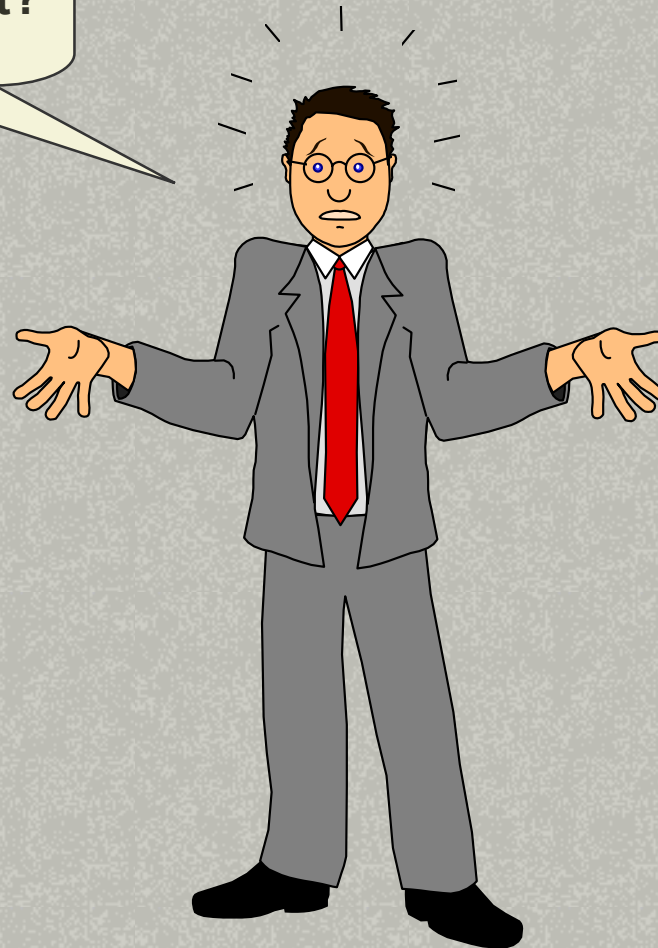


F&A Costs & Recovery

- Source of Misunderstanding and Confusion
 - Differing perceptions of F&A Costs
 - Conflicting objectives
 - Traditional myths

Perceptions

Which is correct?





Revenue Perception

Recovery at MAU, SW, Dept. Levels

**Campus
Revenue**
32.2%

**Statewide
Revenue**
12.8%

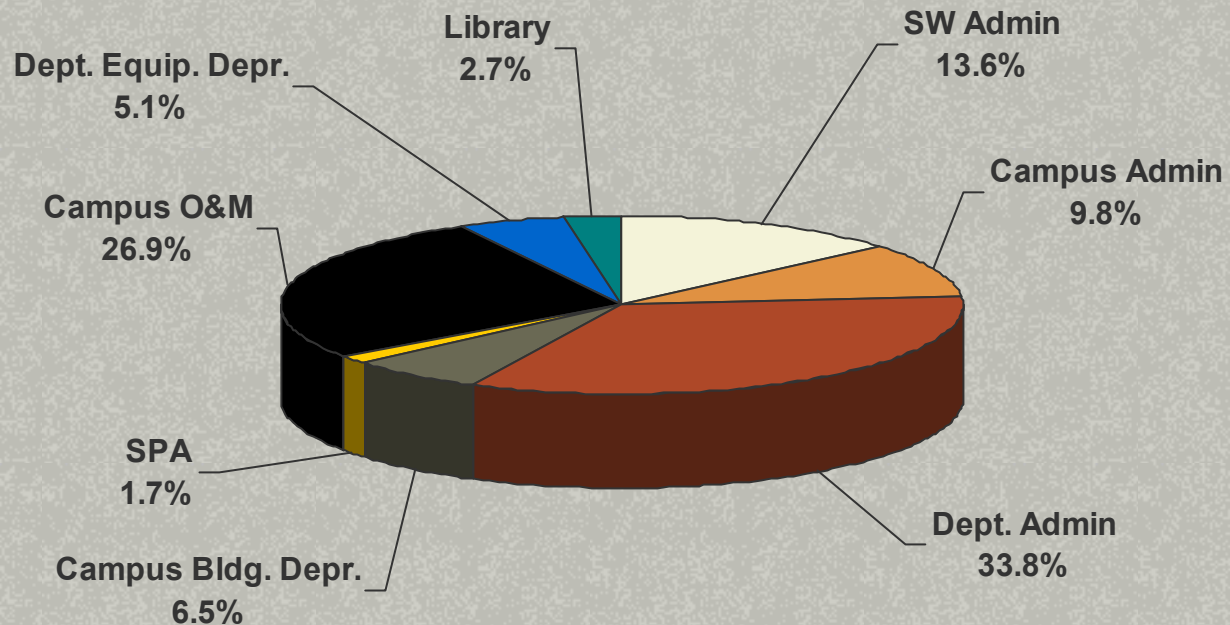


**Department
Revenue**
55.0%

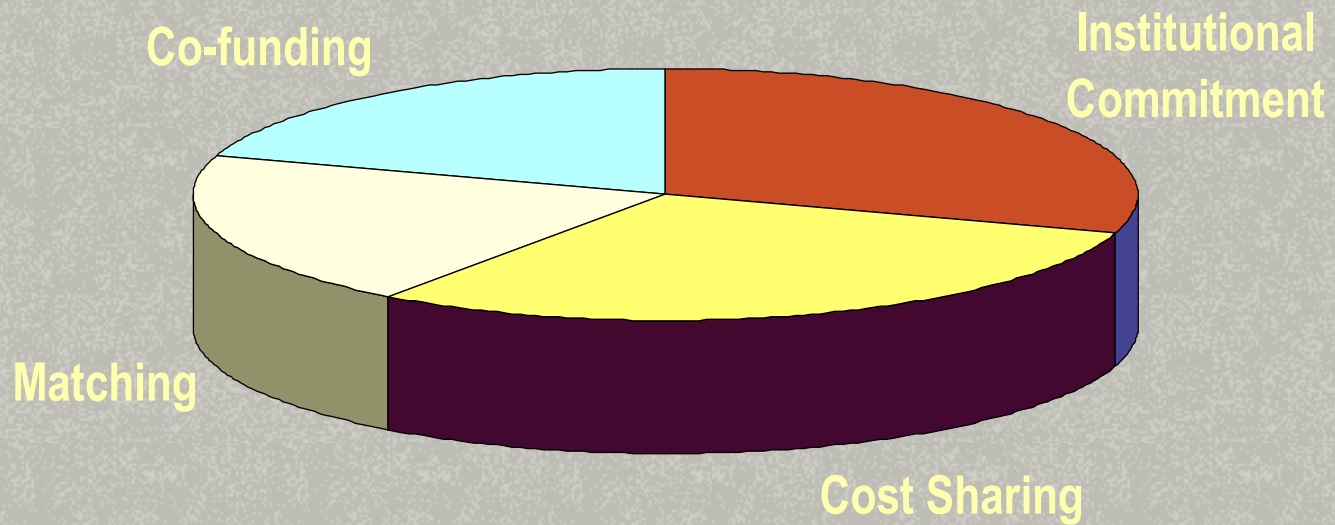
Cost Reimbursement Perception

FY02-FY04 UAF Organized Research

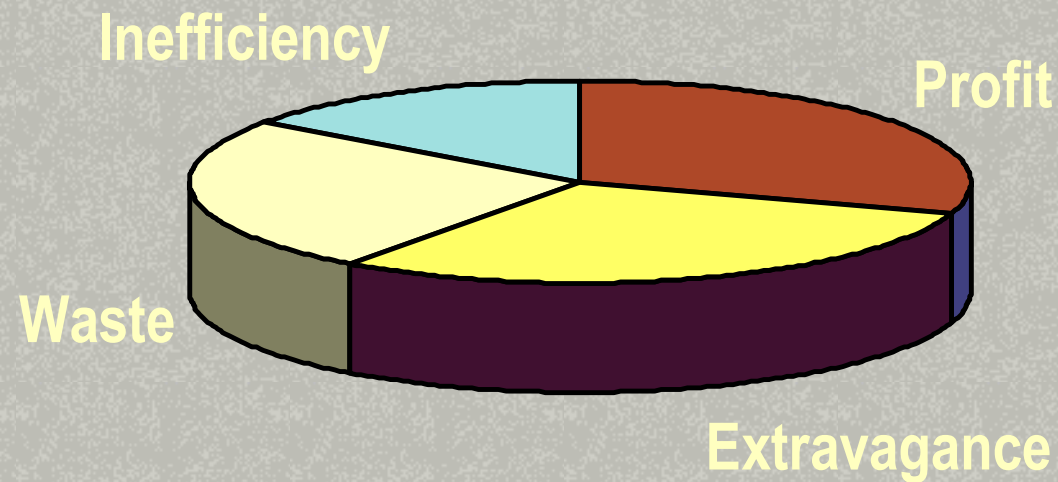
F&A Costs by Pool as % of Total F&A Costs



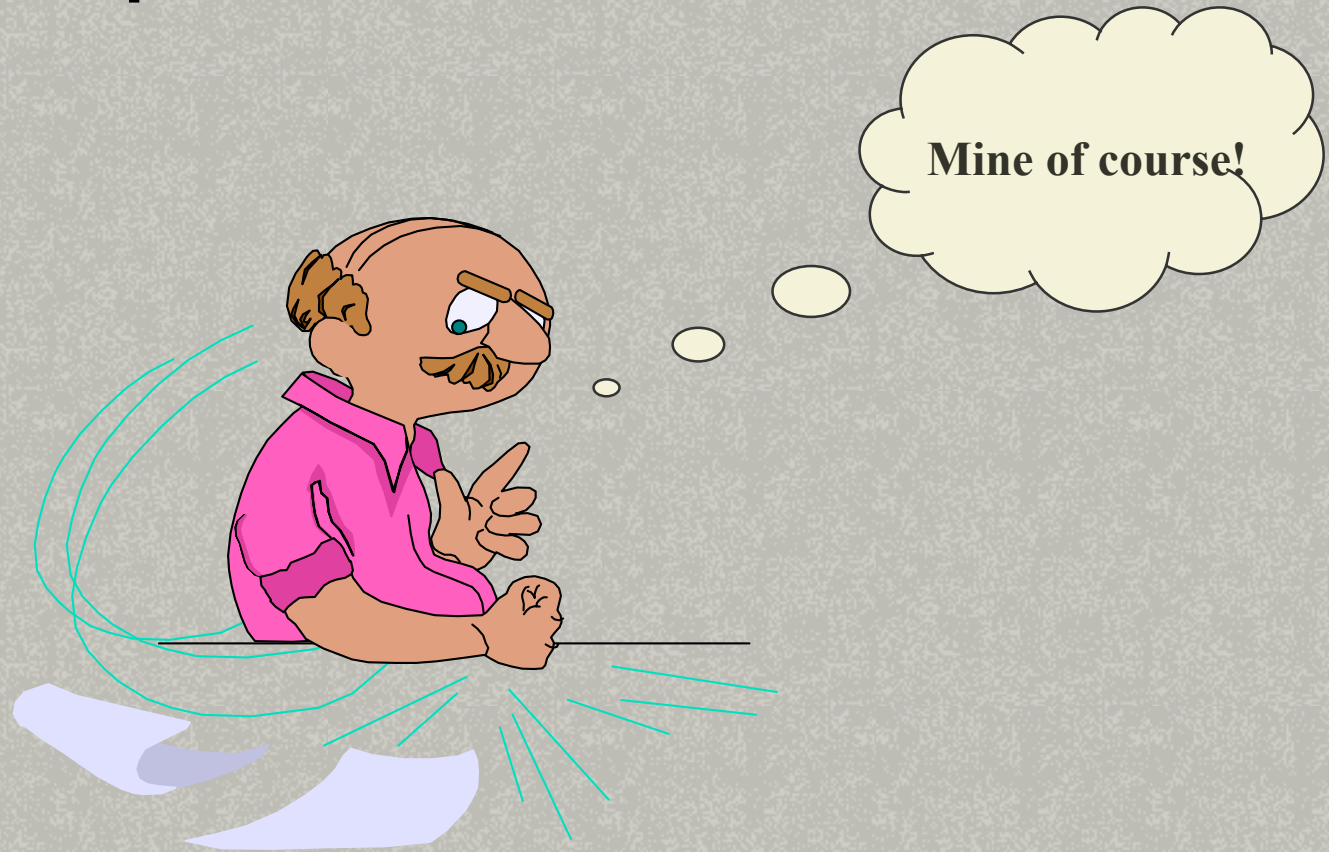
Cost Sharing Perception



Overhead Perception



Perceptions



Conflicting Objectives

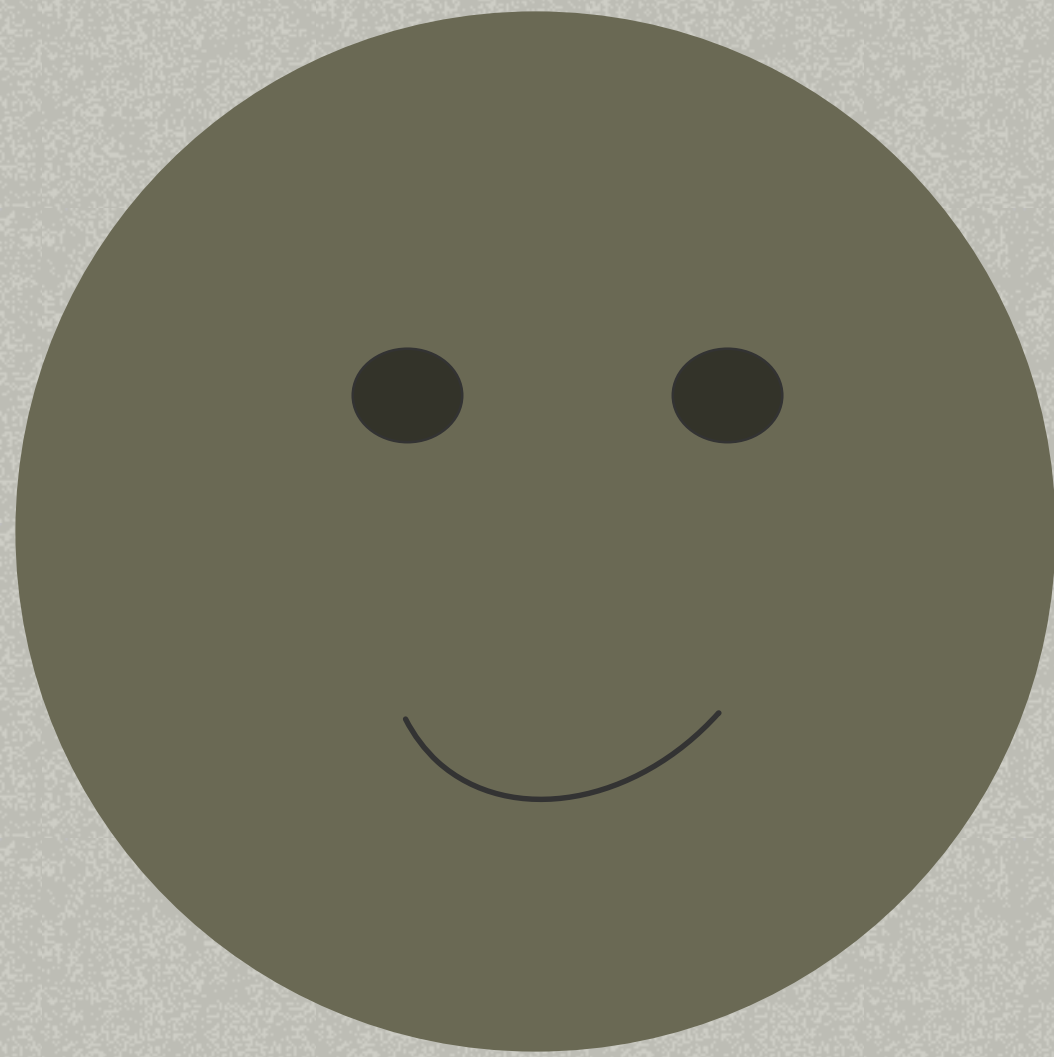
- Administration
 - Full F&A Cost Recovery
- Principal Investigator (researcher)
 - Maximize direct research activity
 - Fund salary and graduate assistants
- Granting Agency
 - Maximize direct research outcome





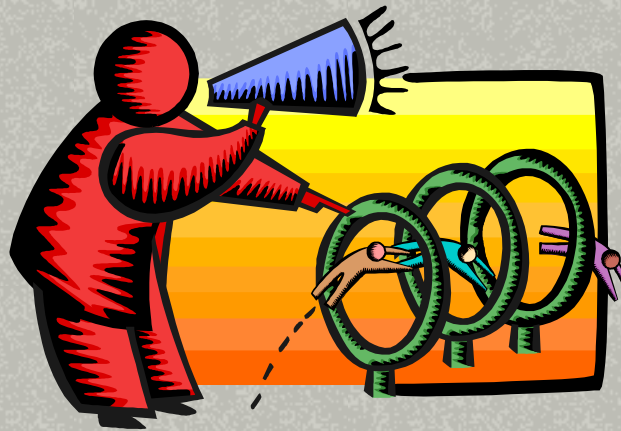
Myths About F & A Costs

- F&A costs are not real costs
- F&A costs are funded by state general fund appropriations
- Waived indirect cost recovery on a project can be recovered on other projects
- Staff time and miscellaneous charges can be assigned to a project in lieu of overhead



OMB Circular A-21

Revised effective Sept. 2000





Circular A-21

- Website:

<http://www.whitehouse.gov/omb/circulars/index.html>





A-21 Recent Changes

- Revision effective September 7, 2000
 - Revised G.12.
 - Added standard format for submitting F&A rate proposals
 - Applies to rate proposals utilizing base years on or after July 1, 2001
 - Appendix C – Documentation Requirements for F&A Rate Proposals
 - Part I – Data elements
 - Part II – Standard documentation requirements



Navigating A-21

- Section A – Purpose & scope
- Section B – Definition of terms
 - Major functions of institution
 - F&A costs
- Section C – Basic considerations
 - CAS
 - Disclosure Statement
- Section D – Direct costs



Navigating A-21

- Section E – F&A costs
- Section F – Identification and assignment of F&A Costs
 - Defines of F&A
 - Defines F&A cost pools
 - Specifies allocation methodology
- Section G
 - Defines MTDC
 - Describes different negotiated rate types
 - Defines cognizant agency



Navigating A-21

- Section H – Simplified method for small institutions
- Section I – Reserved
- Section J – General provisions for selected items of cost
 - Principles used to establish allowability
- Section K – Certification of charges



Navigating A-21

- Exhibit A – List of Colleges & Universities Subject to Section J.12 of Circular A-21
 - UA not on list
- Exhibit B – Listing of Institutions that are eligible for the utility cost adjustment
 - UA not on list
- Exhibit C – Examples of “major project” where direct charging of administrative or clerical staff salaries may be appropriate



Navigating A-21

- Appendix A – CASB’s Cost Accounting Standards (CAS)
- Appendix B – CASB’s Disclosure Statement (DS-2)
- Appendix C – Documentation Requirements for Facilities and Administrative (F&A) Rate Proposals
 - Improves comparability between institutions



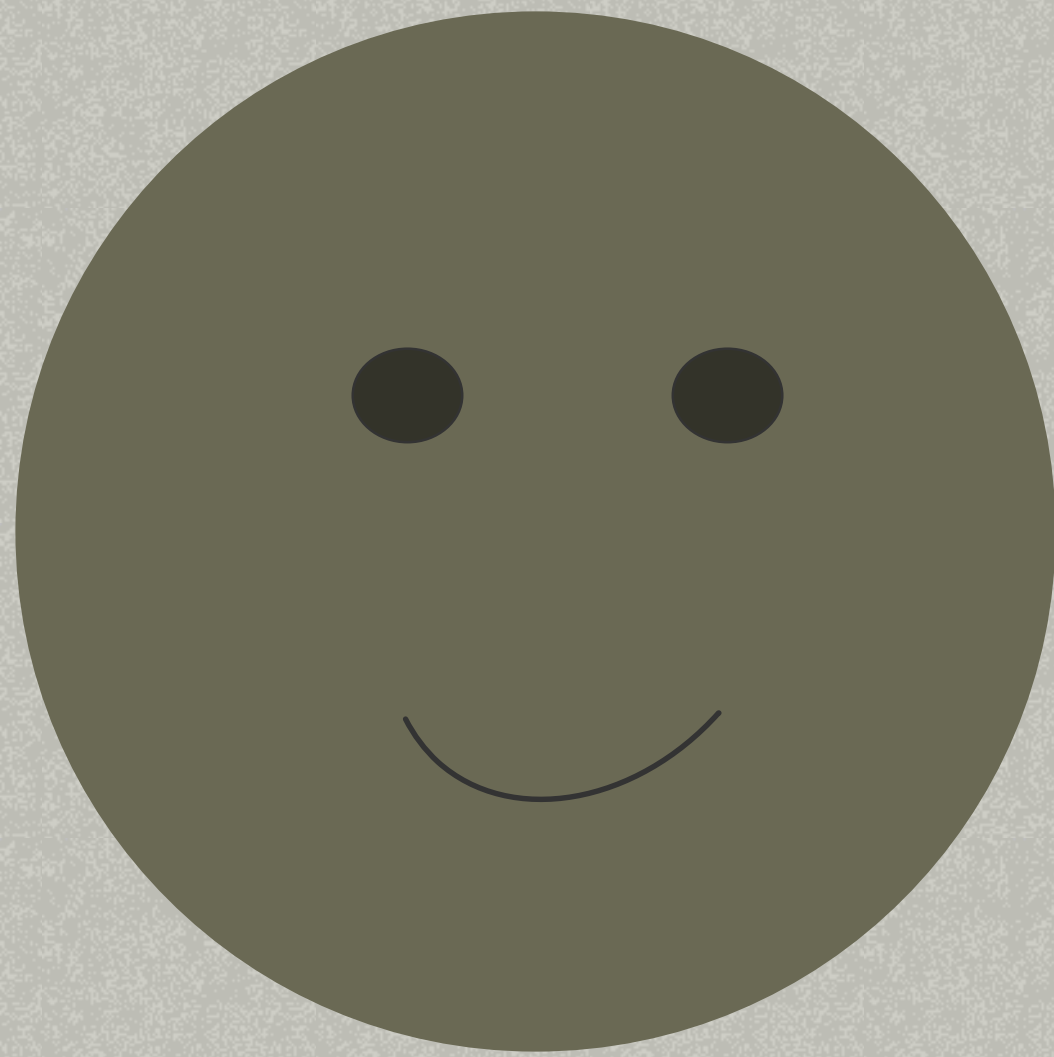
A-21 Additional Comments

- Clerical and Administrative Salaries (F.6.b.)
 - Defines major project
 - Extensive administrative or clerical support
 - Significantly greater than the routine level of service provided by academic departments
- Major Project Examples in Exhibit C
 - Inclusion in list does not imply that direct charging would always be appropriate



A-21 Additional Comments

- Exhibit C: Additional Clarification of Direct vs. Indirect charging of Administrative costs
 - Appropriate to charge costs direct to federal sponsored agreements if
 - Actual activities charged direct are not same as actual activities included in F&A cost pools
 - Or activities are immaterial in amount
 - Inappropriate to charge costs direct to federal sponsored agreements if
 - In similar circumstances, the costs for performing these activities for other sponsored agreements are recovered through the F&A rate



Program Codes



How They are Used at UA



Program Codes are used for:

- Financial Statement Reporting
- IPEDS (Integrated Postsecondary Education Data System) reporting
- Budget Reporting
- Institutional Research
- F&A Cost Rate Calculations



NCHEMS Classifications

- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Operations & Maintenance
- Student Aid
- Auxiliaries



Program Codes in Banner

- Organization code setup requires a default program code
- Program code attaches to transaction from “birth to death”
 - Errors can be corrected so no net impact
- UA decision - only one program code per organization code
- Program code often transparent to user



Common Dept. Alpha Codes

ID	Instruction support/department administration
IM	O & M at academic unit
IN	Instruction
RO	Organized research / match at other than Organized Research unit
AS	Academic Deans, acad computing, media svcs, curriculum devel.
PD	Public Service support/department administration
PM	O & M within public svc unit
PS	Public Service
RD	Research support/department administration
RM	O & M at Organized Research unit
RR	Organized Research / match at Organized Research Unit
RY	Organized Research - recharge



Accurate Program Code Accounting

- Consistency from year-to-year
- Same “sheet of music” for everyone
- Required by CAS
- Users classify - more accurate
- Avoid “Butrovich classification”
- Corrections are painful



Accurate Program Code Accounting

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Changes for FY02-FY04

- Change in Definition of Organized Research
 - A-21 defines organized research
 - A-110 defines research
 - University defines “separately budgeted and accounted for”



Changes for FY02-FY04

- UA defines Organized Research as:
 - University research
 - Fund 1
 - Initiative funds - initiative research organization code
 - Expenditures in organized research unit using research organization code
 - Fund 14 Matching fund using research organization code
 - Fund 18 Natural resource fund using research organization code
 - Sponsored research
 - Fund 3 Sponsored research in restricted fund using research organization code



Changes for FY02-FY04

- Department Research
 - Research that is not “separately budgeted and accounted for”
 - Instruction for reporting purposes
- Need to Identify Organized Research Training
 - Part of organized research
 - RT program code



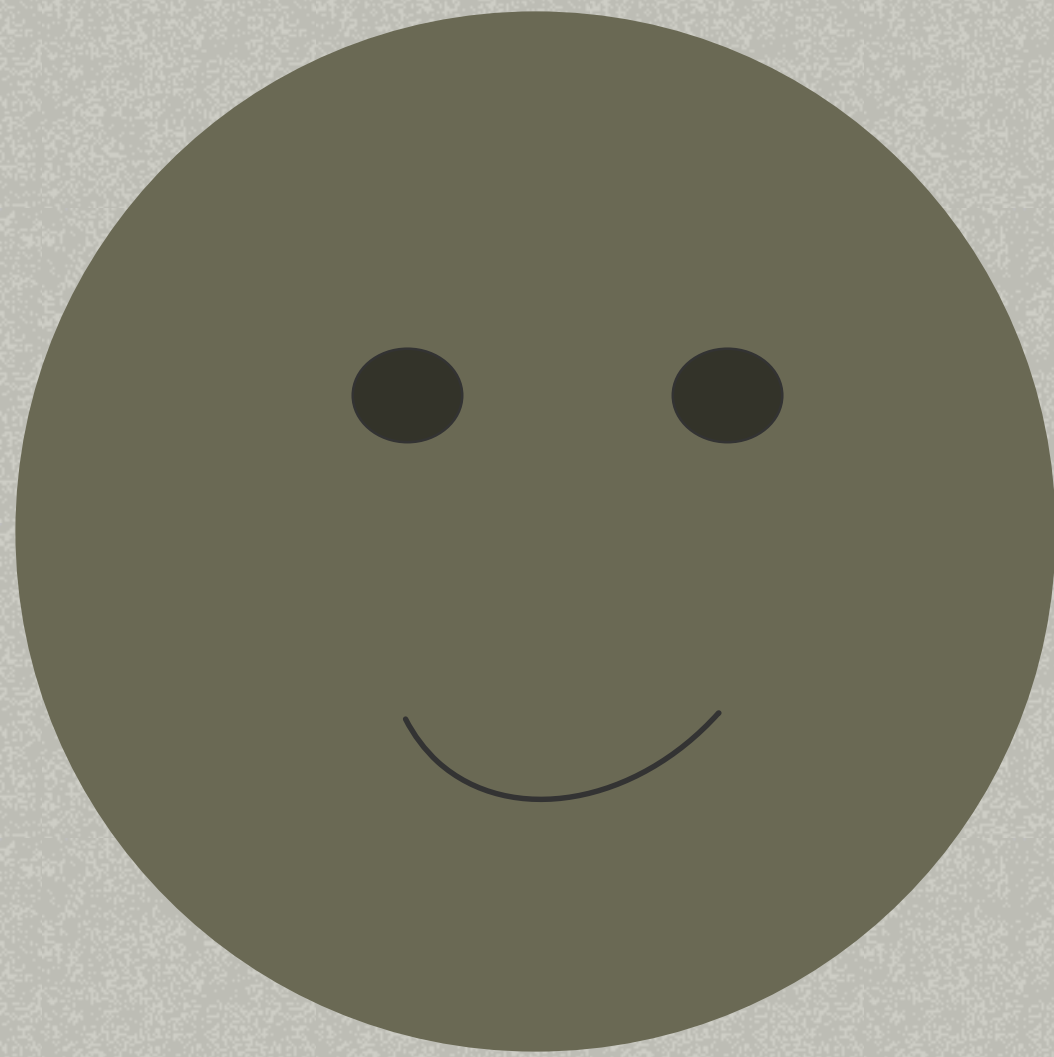
Status on Revised Program Code Definition Documents

- Currently under Review by Controller
 - Draft versions of a revised Alpha ID list
 - Draft version of a revised Program Code Definition
- Distribution to Campus personnel
 - Early December
- Implementation – FY02
- Finalized by December 31, 2001



Program Code Review

- SW Cost Accounting and Fund Accounting reviewing year-to-date activity to identify problems with program codes used
 - Quarterly basis
 - Currently reviewing July – September
- Subsequent review
 - UAF Financial Services
 - UAF Grant & Contract Services

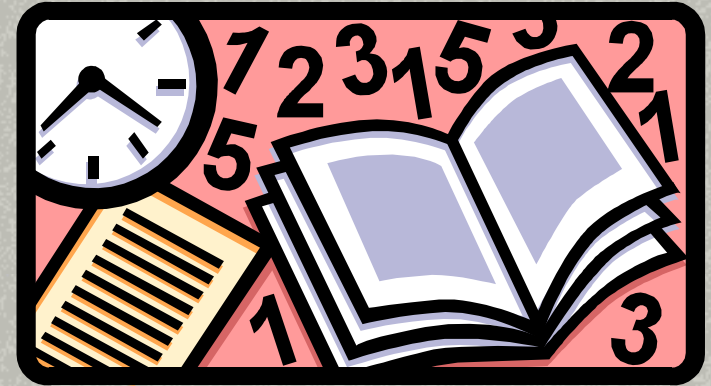


Space Survey



Must be updated in FY03

Space Survey



- Two parts

- Facility inventory

- Identify who is occupying space
 - Space square footage
 - Changes in blueprints

- Functional use survey

- Identifies how buildings are used
 - Identifies department using space
 - A-21 requires biannually

Space Survey

- Data used for
 - Analyses for administration and for Board of Regents
 - MAU space management
 - F & A cost rates
 - Nationwide surveys about facilities





Functional Use Survey

- Functional use classification impacts:
 - Depreciation allocation
 - Buildings
 - Equipment
 - Operations & maintenance allocation
 - Specific building subpool
 - Total square feet subpool



Space Survey Process

- Campus updates facilities info
 - Floor plans
 - Space verification
 - Current assigned user
 - Room numbers
 - Room type (classroom, laboratory, office)
 - Dimensions



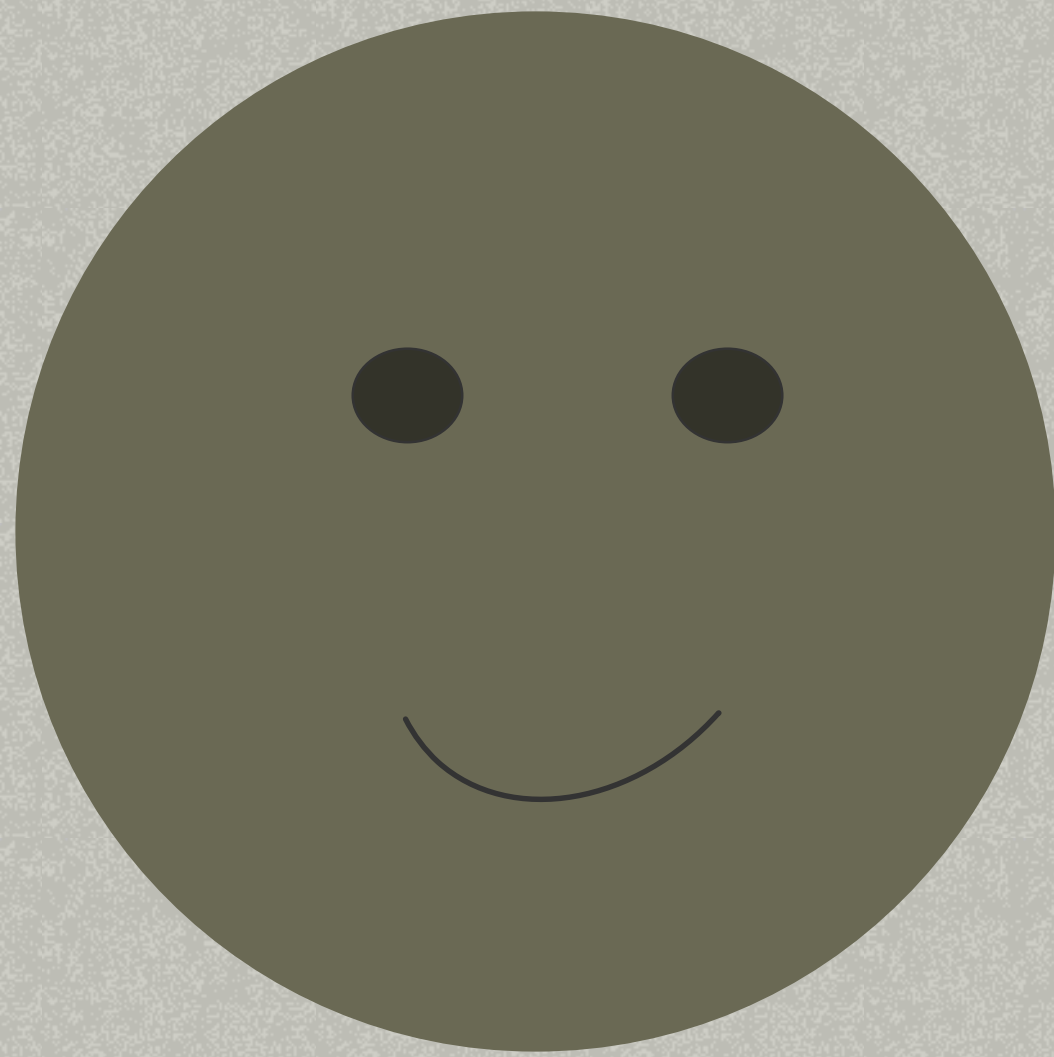
Space Survey Process

- Functional use collection
 - Categories match F&A base and pools
 - Percentage of functional activity must equal 100% for each room
- Facilities database updated
 - SW Institutional Research
- Info uploaded into CRIS (F&A software)
 - Salary / space comparison



Space Survey Schedule


- Fall 2002
 - Update facilities inventory
- January 2003
 - Space survey conducted
- Data used for FY05-FY07 F&A Rate Proposal
- Currently researching web based products



Rate Status



Last Topic!



Status of FY02 – FY04 F&A Rate Negotiated Agreement

- Provisional rates established
 - Effective July 1, 2001
- Audit completed and report submitted to ONR August 2001
 - No findings or questioned costs
 - Pending
- No changes in rates for FY02 anticipated
- Anticipate increases in rates for FY03-FY04



**Please complete
feedback sheets.
Thanks for coming!**