Presentation of
Simplified Method for Preparing the Facilities and Administrative Cost Rate Proposal

Jason Guilbeault, Senior Consultant
Agenda

1. What is the Facilities and Administrative cost proposal?
2. Why do one?
3. What are its components?
4. How do you prepare one?
5. Common target areas during rate negotiation.
6. Short Form vs. Long Form considerations.
What is the F&A cost proposal?

• The F&A cost proposal helps the school to recover the cost of institutional expenses related to research and other, externally-funded direct activities.

• The federal government mandates that schools submit the F&A cost proposal to their cognizant agency, either DHHS-DCA or ONR-DCAA.

• Title 2 CFR Part 220 (Formerly Circular A-21) prescribes what can or cannot be included in the F&A cost categories.

• The F&A cost proposal is subject to Federal audit, based on Part 220 requirements.
Why do one?

• The institution can be reimbursed for overhead / indirect costs on certain federal awards.
  • Granting agencies include the National Institutes of Health, the National Science Foundation, Department of Defense, and the Department of Education.

• Provides a critical source of revenue at a time when budgets are tight.

• If completed in the appropriate manner, e.g., follows Part 220 requirements, federal audit is not lengthy.
Who Can Use the Simplified Method?

• **2 CFR Part 220, Subsection H:**
  * Where the total direct cost of work covered by Part 220 at an institution does not exceed $10 million in a fiscal year, the use of the simplified procedure described in subsections H2 or 3, may be used in determining allowable F&A costs.

• **New Uniform Guidance (2 CFR 200):**
  * Effective 12/26/13 (uniform implementation 12/26/14 applicable to new awards and incremental funding awarded on or after 12/26/14), but for F&A costing purposes, we anticipate this goes into effect starting with FY16 base years. Subpart F (Audits) of the Guidance is effective for the first fiscal year beginning after 12/26/14.
  * Institutions that have never received a negotiated rate may elect to charge a de minimis rate of 10% of MTDC, which may be used indefinitely.
  * It is recommended you weigh the cost to benefit of using the 10% rate. Typical negotiated rates are much higher than 10%.
What is the F&A rate?

Total FY14 F&A Costs
\[ \div \]
Total FY14 Direct Activity Costs*

\[ = \, ? \, \% \]

* Includes instruction, sponsored research awards, public service awards, auxiliary enterprises, student services, and other direct costs (unallowable activities)
There are two components to F&A costs:

**Facilities**
- Utilities
- Interest on buildings/equip/cap improvements
- Building Depreciation*
- Equipment Depreciation*
- Physical Plant Administration
- Campus Security
- Library

* Grant-funded assets are not included.
Administration

- Grant Administration and Compliance (Office of Sponsored Projects)
- University Administration (Human Resources, Finance, Budget, President’s Office)
- Department Administration, including Department Chair and Support Staff
  - For Short Form method, computed as 20 percent of the salaries and expenses of deans, heads of departments, and their administrative assistants.
Steps In The Cost Proposal Process

1. Procure Financial and Asset Data
2. Reconcile To Financial Statement
3. Reclassify Costs To 2 CFR Part 220 Cost Categories
4. Exclusion Of Costs
5. Adjustments for Interest / SWCAP / Depreciation / O&M
6. Calculate Rate
7. Submit Final Package
Procuring Financial and Asset Data

1. Pertains to a single fiscal year, known in the F&A world as your base year.

2. Expenditure data needs to have the following data elements:
   - Account or Chart String
   - Expenditure Transactions At The Object / Expense Code
   - Department
   - Financial Statement Code/Function
Asset Data - Depreciation

1. 2 CFR Part 220, Section F2
2. Gather asset records to identify buildings and equipment.
3. Reconcile depreciation to amount recorded in Financial Statements.
4. Determine “allowable” depreciation for Short Form F&A cost proposal.
   • Usually determined by space data
# Reconcile Financial Data to Financial Statements (Schedule 1)

**Compliant University**  
Facilities and Administrative Cost Rate Proposal (Short Form)  
Fiscal Year Ending June 30, 2014

## Schedule 1: Reconciliation to Financial Statement

<table>
<thead>
<tr>
<th></th>
<th>Instruction</th>
<th>Acad Supp</th>
<th>Stud Serv</th>
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<th>Public Service</th>
<th>Auxiliary</th>
<th>Operations and Maintenance</th>
<th>Scholarships and Grants</th>
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<th>Mandatory Transfers</th>
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<td>6,674,969</td>
<td>408,231</td>
<td>(5,937)</td>
<td>(2) Rounding</td>
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<td>408,231</td>
<td>(5,937)</td>
<td>74,795,896</td>
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</table>

**Notes to Schedule 1:**  
For financial statement purposes, Compliant University allocates non-sponsored, centrally paid O&M, Depreciation, Interest, Scholarships and Grants, and Transfers to the Instruction, Academic Support, Student Services, Institutional Support, and Auxiliary functions.
Reclassify Costs to 2 CFR Part 220 Categories

1. Part 220, Sections F4 (O&M), F5 (GA) and F8 (Library).
2. Expenditure data needs to be scrutinized at the account and department level.

Facilities Cost Examples

• Library costs may be classified as Academic Support function for the Financial Statements, but they are defined as a Facilities costs by Part 220. Move to Library Function in the indirect cost pool.

• Campus Security is often classified as Institutional Support for the Financial Statements, but should be in the O&M function in the indirect cost pool.
Reclassify Costs to Part 220 Categories

Administrative Cost Examples

- Institutional Support is typically defined as General Administration (scrub for OIA).
- Department Administration costs are those of Department Chairs, College Deans and Clerical Support (20% for Short Form Method).
  - Requires salary and fringe benefit expenses, by title code and employee.
  - Costs are re-classified from Instruction direct base to DA function of the indirect cost pool.
Reclassify Costs to Part 220 Categories

Unallowable Costs

- Part 220, Section J
- Costs such as Alumni Relations and Fundraising need to be classified as Other Direct Costs.
- Financial data needs to be scrutinized at the Object / Expense Code level for:
  - Entertainment expenses
  - Certain legal costs
  - Lobbying costs
## COMPLIANT UNIVERSITY
### FYE JUNE 30, 2014

### Indirect Cost Proposal Format - Simplified Method
Reclassification of Expenditures Shown in Financial Statements

<table>
<thead>
<tr>
<th>Expenditure Classifications</th>
<th>Salaries &amp; Wages</th>
<th>Other</th>
<th>Total</th>
<th>Salaries &amp; Wages</th>
<th>Other</th>
<th>Total</th>
<th>Salaries &amp; Wages</th>
<th>Other</th>
<th>Total</th>
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<td></td>
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<td>( 2,775,652)</td>
<td>( 1,230,309)</td>
<td>( 4,005,961)</td>
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<td>( 5,753,418)</td>
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<td>6,234,504</td>
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<td>408,231</td>
<td>408,231</td>
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<td></td>
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<td>47,888,805</td>
<td>26,907,133</td>
<td>74,795,938</td>
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</table>
Exclusion of Costs

Part 220, Section G2 Prescribes Expenditure Eliminations

- Patient care & tuition remission
- Scholarships and fellowships
- Participant Support
- Subcontract expenditures above $25,000
- Sponsor paid facilities rental costs
- Capital Assets
- F&A Cost Recovery
Exclude unallowable expenses

DCA Best Practices Manual – Appendix E:

- The treatment of “unallowable activities” differs from the treatment of other unallowable costs (e.g. bad debt expense) in that the former includes the salaries of personnel which must be included in the salary and wage distribution base in the computation of the indirect cost rate, while the latter are excluded from the rate computation entirely.
## COMPLIANT UNIVERSITY
### FYE JUNE 30, 2014

### Indirect Cost Proposal Format - Simplified Method Exclusions

<table>
<thead>
<tr>
<th>Expenditure Classifications</th>
<th>Reclassified Expenditures (Schedule 2)</th>
<th>Exclusions</th>
<th>After Exclusions</th>
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<td>3,065,735</td>
<td>27,664,258</td>
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<td>3,612,996</td>
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<td>INSTITUTIONAL SUPPORT</td>
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<tr>
<td>OPERATION &amp; MAINTENA</td>
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<td>6,408,757</td>
<td>8,281,816</td>
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<tr>
<td>SCHOLARSHIPS AND GRANTS</td>
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<td>DEPRECIATION</td>
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<td>6,674,969</td>
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<td>GENERAL ADMIN</td>
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<td>3,123,850</td>
<td>9,359,778</td>
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<td>LIBRARY</td>
<td>1,260,530</td>
<td>1,335,826</td>
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<td>OTHER DIRECT COSTS</td>
<td>4,198,975</td>
<td>2,035,529</td>
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<td>INTEREST</td>
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<tr>
<td>Totals</td>
<td>47,888,805</td>
<td>26,907,133</td>
<td>74,795,938</td>
</tr>
</tbody>
</table>
Adjustments for O&M / Interest / Depreciation / SWCAP

- Part 220, Section F3 allows for inclusion of interest costs on capitalized debt.
- Administrative costs paid on behalf of the state are also eligible for inclusion. Your state must have an approved SWCAP through DCA.
- Building and equipment depreciation are shown as an adjustment on Schedule 4.
- Part 220 also says you need to adjust the costs of O&M, depreciation, and capital interest related to Auxiliaries/OIA.
# COMPLIANT UNIVERSITY

**FYE JUNE 30, 2014**

## Indirect Cost Proposal Format - Simplified Method

### Adjustments

<table>
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<th>Expenditure Classifications</th>
<th>Salaries</th>
<th>Other</th>
<th>Total (Schedule 3)</th>
<th>Adjustments</th>
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**Totals:**

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<th>Total</th>
<th>Adjustments</th>
<th>Direct Costs</th>
<th>Indirect Costs</th>
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<td>11,654,015</td>
</tr>
</tbody>
</table>
Great! All costs are aligned to Part 220!

- You must now determine which rate base to use.
- Part 220 allows three different bases:
  - Salaries and Wages
  - Salaries and Wages + Benefits
  - Salaries and Wages + Benefits + Other Expenses (MTDC)
- S&W provides the highest rate due to the lower base, while MTDC provides the lowest rate due to the larger base, but the latter may provide more F&A recovery.
- You need to review your grant stream to determine which base to use.
Quick Case Study

University has the following research expenses projected for FY2014:
Salaries and Wages - $3,000,000
Fringes - $1,000,000
Other - $2,000,000 (not including non-F&A expenses)

Recovery with 65% S&W base = $1,950,000
Recovery with 55% S&W&F base = $2,200,000
Recovery with 45% MTDC base = $2,700,000

In this scenario, using an MTDC base for the F&A rate provides the best recovery.
COMPLIANT UNIVERSITY  
FYE JUNE 30, 2014  
Facilities and Administrative Cost Rate Proposal  
Rate Schedule

<table>
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<tr>
<th>Indirect Functions</th>
<th>Salaries &amp; Wages</th>
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Total Indirect Cost: $20,710,298  
Direct Cost Base: $44,750,977

On Campus Rate: 46.27%  
Off Campus Rate: 20.90%
The Final Package

1. Print out final Schedules 1 - 4, Rate Schedule
2. You will need to footnote Reclassifications, Eliminations and Adjustments (see next slide)
3. Part 220 requires that disclosures/certifications be signed by someone in upper management.
4. A checklist is also required by DCA – San Francisco (we include it on all F&A Cost Rate Proposals).
5. Now, you are ready to send the package to the Division of Cost Allocation, a unit of the Department of Health and Human Services.
Notes for Schedule 2

A. Financial Statements: The expenditure classifications shown in the financial statements conform to the classifications recommended in “College and University Business Administration” published by the National Association of College and University Business Officers and incorporated into the audit guide “Audit of Colleges and Universities” published by the American Institute of Certified Public Accountants.

B. Reclassifications: The simplified method in Section H of Circular A-21 identifies the specific costs which are allowable as indirect costs and requires that all other costs be treated as direct costs. Therefore, any cost which does not qualify as an allowable indirect cost must be classified as a direct cost. In the interest of simplicity, all of these costs may be classified as “Other Direct Costs” (ODC). The following describes the reclassifications made to the financial statement amounts by function based on the requirements in Section H of OMB Circular A-21.

<table>
<thead>
<tr>
<th>Reclassification</th>
<th>Comment</th>
<th>Salaries + Fringes</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Instruction Reclassifications</td>
<td>Department Administration: 20% of salaries and expenses of department heads to DA cost pool</td>
<td>(678,602)</td>
<td>(48,538)</td>
<td>(727,140)</td>
</tr>
<tr>
<td></td>
<td>Operations and Maintenance: Department-paid facilities expenses to O&amp;M cost pool</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Reclassification</td>
<td></td>
<td>(678,602)</td>
<td>(48,538)</td>
<td>(727,140)</td>
</tr>
<tr>
<td>(2) Academic Support Reclassifications</td>
<td>Library: Library expenses in Academic Support to Library cost pool</td>
<td>(1,260,530)</td>
<td>(1,335,826)</td>
<td>(2,596,356)</td>
</tr>
<tr>
<td></td>
<td>Other Direct Costs: Remaining Academic Support Expenses to ODC base</td>
<td>(1,515,122)</td>
<td>105,517</td>
<td>(1,409,605)</td>
</tr>
<tr>
<td>Total Reclassification</td>
<td></td>
<td>(2,775,652)</td>
<td>(1,240,343)</td>
<td>(4,015,995)</td>
</tr>
</tbody>
</table>
Certificate of Indirect Costs

This is to certify that to the best of my knowledge and belief:

(1) I have reviewed Compliant University’s F&A cost proposal submitted herewith;

(2) All costs included in this proposal to establish billing or final indirect cost rates for the period beginning July 1, 2015 are allowable in accordance with the requirements of the Federal agreements to which they apply and with the cost principles applicable to those agreements.

(3) This proposal does not include any costs which are unallowable under applicable cost principles such as (without limitation): advertising and public relations cost, contributions and donations, entertainment costs, fines and penalties, lobbying costs, and defense of fraud proceedings; and

(4) All costs included in this proposal are properly allocable to Federal agreements on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements.

I declare under penalty of perjury that the foregoing is true and correct.

Compliant University
Institution

Signature

Name of Official

Title
Compliant University
Additional Certifications and Assurances

This is to certify that I have reviewed the University’s Facilities and Administrative Proposal for Fiscal Year 2014 and attest to the following:

Assurance that Federal Funds are not Used to Subsidize Industry and/or Foreign Government Programs [A-21 G1a(3)]

The fund accounting system used by the University prevents subsidizing industry and/or foreign government programs. Restricted funds, including federal awards, are recorded in separate funds. Direct expenditures from these funds are restricted to the exclusive purpose of the award. Since all restricted funds are allocated to the major functions of the University (Instruction, Other Sponsored Activity, Other Institute Activities and other bases), the appropriate share of indirect costs is allocated to industry and/or foreign government expenditures regardless of whether or not overhead is charged on the actual activity.

Certificate of Lobbying (A-21 J28)

To the best of my knowledge and belief, the subject proposal complies with the requirements and standards of OMB Circular A-21, Section J28 Lobbying, in that any institutional costs associated with activities defined as lobbying have been treated as other unallowable activity costs as required by this section.

Assurance on Executive Compensation

To the best of my knowledge and belief, the Institute is in compliance with any applicable limitations on individual compensation charged to federal awards.

Compliant University
Institution

Signature

Name of Official
Title

Date
COMPLIANT UNIVERSITY

INDIRECT COST PROPOSAL (ICP) CHECKLIST
(Check Off Boxes Below)

1. The ICP is supported by audited financial statements and the OMB A-133 Single Audit Report. (Please include a copy of the supporting document along with your ICP.)

2. A reconciliation of item 1 (above) to the ICP has been made and is included in this cost proposal.

3. Any previous understandings with the Division of Cost Allocation have been incorporated into this ICP.

4. Unallowable expenses have been eliminated from the indirect cost pool (e.g., contributed salaries and services, interest expense, bad debts, fund-raising, advertising, independent research and development (IR&D), depreciation on federally-funded assets and lobbying costs).

5. The indirect cost rate computation base is complete (i.e., it includes all activities that benefit from the indirect cost pool). For example, fund-raising, IR&D, project cost sharing and voluntary services are included where applicable.

6. The Federal amount of the direct cost base is $1,056,622.

7. Treatment of Paid Absences and Fringe Benefit Statements have not changed since the last indirect cost agreement.
8. We have not made any significant changes, during the proposal fiscal year, (i) to our accounting system, or (ii) to the definition or to the accounting treatment of any expense category (e.g., a change in building/equipment costing methodology, or a change in charging an expense from direct to indirect or vice versa).

9. If there was a change to the equipment capitalization level during the proposal fiscal year, please indicate:
   Effective date of the change ________________
   New capitalization level is $______________

10. For nonprofit (A-122) organizations only. Interest costs included in the ICP have been determined in accordance with the requirements of the revised A-122. In addition, required documentation (e.g., needs justification, lease/purchase analysis) has been submitted along with the ICP.

11. The required “Lobbying Cost Certification” for nonprofit (A-122) organizations or “OMB Circular A-21 Certificate of Indirect Costs” for colleges and universities is attached.

12. Please provide the following information:
   Official Name: Jon McFinance
   Contact Name: Jason Guilbeault, MAXIMUS, Inc.
   Email: JMcFinance@compliantu.edu
   Email: JasonRGuilbeault@maximus.com

Explanation of any numbered boxes not checked above (continue on back):

See attached schedule A-2 for explanation of any numbered boxes not checked.

Signature ___________________________ Title: ________________________________

Organization: Compliant University __________ Date: _______________________

Send checklist along with your ICP to the Division of Cost Allocation, Dept. of Health & Human Services, Northeastern Field Office, 26 Federal Plaza, Room 41-122, New York, NY 10278

Rev. 05/04
The Rate Negotiation

1. DCA will audit the cost proposal and will respond with requests for additional data.
2. Then, the institution will negotiate a rate with DCA.
3. The final rate is usually lower than the proposed rate.
4. Institutions may be able to establish a four-year agreement with DCA.
5. If this is the first go-around, DCA may only grant a one-year rate.
The Rate Negotiation – Risk Areas

1. Make sure unallowable activities are mapped to Other Direct Costs, or some other function that is in the denominator.
   - Unallowable expenses (i.e., bad debt, alcohol) should be taken out of the calculation altogether.

2. 20% DA calculation – Review the title codes. DCA will review these and make sure you are not including non-DA personnel (i.e., dean of students).

3. Fringe Benefits – If you are using a fringe benefit rate, it should be a federally negotiated fringe benefit rate.

4. Space data – The more accurate your data, the easier it is to defend. Preferably use Part 220 classifications for your space functionality.
Converting from Short to Long Form

• Weigh the cost to benefit:
  – Long Form may yield a higher rate.
  – Long Form requires more administrative work.
  – Once you go to Long Form you cannot go back to Short Form.
  – Must use MTDC for base, which could be good or bad depending on your grant portfolio.
Converting from Short to Long Form

• Extra administrative work (if you don’t do this already):
  – Need departmental space survey data on a room by room basis, classified by Part 220 categories.
  – Need equipment inventory by room, building, or department (room is best).
  – Need building interest broken down by building.
  – Chart of Accounts/Accounting system must be able to properly identify unallowable costs.
Converting from Short to Long Form

• Extra administrative work (continued):
  – Need building depreciation by building.
  – Need equipment depreciation by asset, and be able to differentiate between federally, state, private, or institutionally-funded equipment.
  – Be able to identify employees by class (ex: faculty and professional, administrative, and general support)
Questions / Comments

Thanks!

Jason Guilbeault, Senior Consultant:
(847) 513-5507 / JasonRGuilbeault@maximus.com