Facilities & Administrative Cost

What is F&A?

- **Facilities and Administrative (F&A) costs** are reimbursements from sponsored awards for the following types of activities.
  - **Facilities** – costs of research buildings, equipment, operation, and management.
  - **Administration** – costs of general, departmental, and student administrative support.

THE UNIVERSITY OF ARIZONA

Federal Guidelines

- **2 CFR 200** - "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards"
- **Department of Health and Human Services** – Cost Allocation Services is our cognizant agency

THE UNIVERSITY OF ARIZONA

A Brief History of F&A

Evolution of F&A Policies: 1940 to Present

1940s-50s
ONR[1] and DHEW[2] began paying for F&A

1958
OMB[3] Circular A-21[4] first issued

1960s
Most federal grants capped F&A recovery (originally at 8%, then 15%, then 20%)

1966
NIH[5] cap removed, HHS[6] established capacity to review and negotiate F&A rates

1970s-80s
Growing controversy among legislators over "spiraling" costs and lack of specific regulations

1979
Overhaul and tightening of Circular A-21 and switch to MTDC[7] base

1990s
Whistleblower allegations and stories of misuse prompt four major revisions of A-21

1993
Administrative cap imposed at 26%

2014
Uniform Guidance[8] issued

2017
Proposed 10% cap on F&A

1) Office of Naval Research
2) Department of Health, Education, and Welfare
3) Office of Management and Budget
4) Cost Principles for Educational institutions
5) National institutes of Health
6) Department of Health and Human Services
7) Modified Total Direct Costs (excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $25,000)
8) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

THE UNIVERSITY OF ARIZONA

Source: Cornell University, Facilities and Administrative Cost Recovery: Past, Present and Future

How is F&A Determined?

Rate-Setting Process

Calculation

- Universities use rules defined by OMB[1] and audited financial data
- Rate is based on an average for the institution

Negotiation

- F&A rates are submitted to and rigorously reviewed by the university's "cognizant agency" (DHHS[2])
- University and cognizant agency negotiate a rate normally effective for 2-5 years

Charging

- Negotiated rate is applied to subset of the direct costs of each research project
- Negotiated federal F&A rate is used for all agencies—universities don't negotiate different rates for different agencies

F&A Cost and Rate Trends

20-85%
Range of F&A rates across the United States

53%
Average negotiated F&A rate for universities across the United States

53.5%
University of Arizona's negotiated F&A research rate

THE UNIVERSITY OF ARIZONA

1) Office of Management and Budget
2) Department of Health and Human Services

Why have F&A rates?

- Cost recovery:
  - Permits an institution to recover real indirect costs on awards
  - F&A returns indirect costs already incurred by the institution
  - Establishes common rates for similarly classified projects

How Does F&A Benefit U of A?

Strategic Importance

≈ $81M

Total amount of F&A U of A recovered from all sources in 2018

- F&A funds have become the largest and most important **internal source** of research support
- F&A is a **flexible funding** source since there are few restrictions on how returns can be used

Reinvestment Strategies

- Cover costs already incurred
- Purchase new equipment
- Seed new projects
- Support faculty start-up costs
- Upgrade facilities
- Bolster research support services

Our Current Approach

Distribution Policy

- 75% central administration
- 25% colleges and departments

U of A Initiatives

- Research infrastructure obligations
- RDI allocations (startup packages, bridge funding, equipment matching obligations, etc.)

THE UNIVERSITY OF ARIZONA

Administrative Cap

The total of administrative components **cannot exceed 26%** of Modified Total Direct Costs (MTDC)

THE UNIVERSITY OF ARIZONA

F&A Proposal Preparation Phase

- **Timeline:** 1-1 ½ calendar years
- Groundwork
- Engage campus
- Multiple consultants:

- High-level project management input
- Updating campus utilities system (metering) model
- Updating/improving quality of the University's building componentization data
- Updating library special library utilization data
- Providing space survey and consultation to Planning Design & Construction (Space Management) during the base year

THE UNIVERSITY OF ARIZONA

F&A Proposal Internal Review Phase

- Extensive reviews
  - Key University parties
    - Executive Management
      - ✓VP for Research (RDI)
      - ✓Senior VP for Academic Affairs (Provost
      - ✓Senior VP for Business Affairs
    - Sponsored Projects & Contracting Services
    - External Consultants
- Presentations to key campus committees

THE UNIVERSITY OF ARIZONA

Federal Review/Audit & Negotiation Phase

- **Focus:** On-Campus Organized Research rate
- **Desk review/audit phase**
  - Timeline: 2-3 calendar months
- **Site review**
  - Timeline: 2 calendar days
- **Negotiation phase**
  - Timeline: ½ - 1 calendar day
- **Follow-up phase**
  - Timeline: 2 calendar weeks
  - Agree to F&A component rates for each F&A rate
  - Feds develop and forward new rate agreement for UA signature

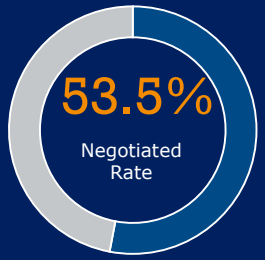
How do proposed and negotiated rates compare?

Indirect Cost Group	FY's 2017-20	
Administrative	Proposed	Negotiated
General & Administration	6.50%	5.80%
College/Departmental Administration	9.60%	17.40%
Sponsored Projects Administration	3.20%	2.80%
Student Administration & Services	0.00%	0.00%
Subtotal for Administration	29.20%	26.00%
Difference	3.20%	
Indirect Cost Group	**FY's 2017-20**	
Facilities	Proposed	Negotiated
Building Depreciation	5.70%	4.60%
Equipment Depreciation	3.10%	3.00%
Interest Expense	3.90%	3.50%
O&M	16.10%	14.30%
Library	2.10%	2.10%
Subtotal for Facilities	30.90%	27.50%
Difference	3.40%	
On-Campus Rate	60.10%	53.50%
Difference	6.60%	

THE UNIVERSITY OF ARIZONA

Recovery Challenges

University of Arizona

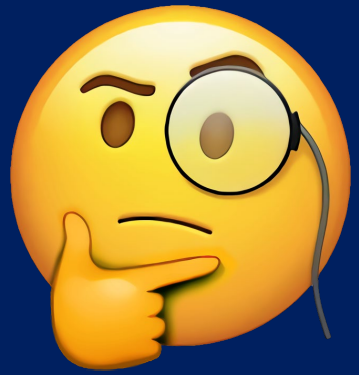


National Outlook

34%
Average effective F&A recovery rate

$5B+
Total F&A unrecovered by all institutions in FY17

- Federally-negotiated rate is always lower than actual costs
- Administrative portion of F&A is capped at 26%
- Some federal agencies cap F&A (e.g., USDA)
- Some non-federal sponsors only offer reduced or no F&A (e.g., foundations)



THE UNIVERSITY OF ARIZONA

F&A on Proposals/Waivers

Guidelines:

- Use the federally negotiated F&A rates
- Sponsor stipulations : must be formally published and applicable to all applicants

Requesting waivers:

- Don’t. ☺

THE UNIVERSITY OF ARIZONA

F&A Waiver Justifications

Must demonstrate benefit to the University’s mission.

Bad Justifications:

- Sponsor can’t afford the project if they have to pay
- We don’t have enough budget to conduct the project if we have to pay
- This project doesn’t use (fill in the blank), so we shouldn’t have to pay

More on waivers

- Must have the approval of the dept/college
- Are not blanket for activities
- Require updates every ~5 years (no more letters signed by VPR in 1996)
- Usually cannot receive same-day review/approval

THE UNIVERSITY OF ARIZONA

F&A Distribution Process

25% of the F&A earned is distributed quarterly to the college.

Distribution is based on the most current finalized routing sheet as of the end of the quarter being distributed.

UAR Proposal Routing Sheet

Combined Credit Split		
	Credit for Award	F&A Revenue
Lars R Furenlid	**75.00**	**75.00**
0711 - Medical Imaging	50.00	50.00
2001 - College of Optical Sciences	50.00	50.00
Unit Total:	100.00	100.00
Harrison H Barrett	**5.00**	**5.00**
0711 - Medical Imaging	50.00	50.00
2001 - College of Optical Sciences	50.00	50.00
Unit Total:	100.00	100.00
Phillip H Kuo	**10.00**	**10.00**
0711 - Medical Imaging	100.00	100.00
Unit Total:	100.00	100.00
Matthew A Kupinski	**10.00**	**10.00**
2001 - College of Optical Sciences	100.00	100.00
Unit Total:	100.00	100.00
Totals		
Investigator Total:	100.00	100.00

THE UNIVERSITY OF ARIZONA

Analytics: Research > Trending > Quarterly Allocation by F&A Fiscal Year - Details

THE UNIVERSITY OF ARIZONA

Quarterly Allocation by F&A Fiscal Year - Details

F&A Fiscal Year	College Code	College Name	Current YR RCU Group	Current YR RCU Name	Split Organization Code	Split Organization Name	Account Number	Account Organization Code	Indirect Cost Rate Percentage	Award Id	Award Version Number	Lead Investigator Name	Investigator Id	Investigator Name	F&A Revenue Percentage	Quarter 3 Indirect Cost Recovery Expense QTD by F&A	Quarter 3 25% of ICR Expense QTD by F&A	Indirect Cost Recovery Expense QTD by F&A	25% of ICR Expense QTD by F&A
2019	MDTC	College of Medicine - Tucson	College and Related Group	COLLEGE OF MEDICINE (TUCSON)	0711	Medical Imaging	4017540	0711	53.50	011259-00001	7	Furenlid,Lars R	02109268	Barrett,Harrison H	2.50	656.03	164.01	656.03	164.01
													10902381	Furenlid,Lars R	37.50	9,840.39	2,460.10	9,840.39	2,460.10
													17105824	Kuo,Phillip H	10.00	2,624.11	656.03	2,624.11	656.03
				COLLEGE OF MEDICINE (TUCSON) Total												**13,120.53**	**3,280.13**	**13,120.53**	**3,280.13**
			College and Related Group Total													**13,120.53**	**3,280.13**	**13,120.53**	**3,280.13**
	OPSC	College of Optical Sciences	College and Related Group	COLLEGE OF OPTICAL SCIENCES	2001	College of Optical Sciences	4017540	0711	53.50	011259-00001	7	Furenlid,Lars R	02109268	Barrett,Harrison H	2.50	656.03	164.01	656.03	164.01
													10902381	Furenlid,Lars R	37.50	9,840.39	2,460.10	9,840.39	2,460.10
													12404856	Kupinski,Matthew A	10.00	2,624.11	656.03	2,624.11	656.03
				COLLEGE OF OPTICAL SCIENCES Total												**13,120.53**	**3,280.13**	**13,120.53**	**3,280.13**
			College and Related Group Total													**13,120.53**	**3,280.13**	**13,120.53**	**3,280.13**
															Grand Total	**26,241.06**	**6,560.27**	**26,241.06**	**6,560.27**

THE UNIVERSITY OF ARIZONA

Quarterly Allocation by F&A Fiscal Year - Details

F&A Fiscal Year	College Code	College Name	Current YR RCU Group	Current YR RCU Name	Split Organization Code	Split Organization Name	Account Number	Account Organization Code	Indirect Cost Rate Percentage	Award Id	Award Version Number	Lead Investigator Name	Investigator Id	Investigator Name	F&A Revenue Percentage	Quarter 3 Indirect Cost Recovery Expense QTD by F&A	Quarter 3 25% of ICR Expense QTD by F&A	Indirect Cost Recovery Expense QTD by F&A	25% of ICR Expense QTD by F&A
2019	MDTC	College of Medicine - Tucson	College and Related Group	COLLEGE OF MEDICINE (TUCSON)	0711	Medical Imaging	4017540	0711	53.50	011259-00001	7	Furenlid,Lars R	02109268	Barrett,Harrison H	2.50	656.03	164.01	656.03	164.01
													10902381	Furenlid,Lars R	37.50	9,840.39	2,460.10	9,840.39	2,460.10
													17105824	Kuo,Phillip H	10.00	2,624.11	656.03	2,624.11	656.03
				COLLEGE OF MEDICINE (TUCSON) Total												13,120.53	3,280.13	13,120.53	3,280.13
			College and Related Group Total													13,120.53	3,280.13	13,120.53	3,280.13
	OPSC	College of Optical Sciences	College and Related Group	COLLEGE OF OPTICAL SCIENCES	2001	College of Optical Sciences	4017540	0711	53.50	011259-00001	7	Furenlid,Lars R	02109268	Barrett,Harrison H	2.50	656.03	164.01	656.03	164.01
													10902381	Furenlid,Lars R	37.50	9,840.39	2,460.10	9,840.39	2,460.10
													12404856	Kupinski,Matthew A	10.00	2,624.11	656.03	2,624.11	656.03
				COLLEGE OF OPTICAL SCIENCES Total												13,120.53	3,280.13	13,120.53	3,280.13
			College and Related Group Total													13,120.53	3,280.13	13,120.53	3,280.13
															Grand Total	26,241.06	6,560.27	26,241.06	6,560.27

THE UNIVERSITY OF ARIZONA

- The distribution was routed incorrectly and my department didn’t get the F&A allocation…how do I correct?
  - Snapshots are taken at the end of each quarter containing the distribution percentages and we cannot go back in time to change. However, if a new routing form is finalized before the next quarter, the mistake can be corrected going forward.
- The only workaround to correct past quarterly allocations is to create new financial accounts with the correct distribution and initiate expenditure transfers from the old accounts to the new accounts.

Myths

Indirect costs are not real costs

They are legitimate verifiable costs

Indirect costs are "profit"

"Profit" is explicitly prohibited by Federal regulations

THE UNIVERSITY OF ARIZONA

Myths

- **"My project is different." Or, "My project doesn't need (or use) F&A support to the same degree as other projects." Or, "Indirect cost charges to my project should be based my project's unique circumstances."**

- Federal rules limit us to developing "average" F&A rates that apply across the board
- It's impractical to calculate F&A on a project-by-project basis

THE UNIVERSITY OF ARIZONA

Myths

▲▲▲

"The UA's ON-Campus Research Rate is too high!"

On-Campus Research F&A Rate for UA and Official Peers

(Sorted by Highest to Lowest Rates for FYs 2019 and 2020)

	Institution	FY15	FY16	FY17	FY18	FY19	FY20
ONR	Illinois (Urbana-Champaign), Univ. of	58.6%	58.6%	58.6%	58.6%	58.6%	58.6%
ONR	Pennsylvania State Univ.	54.5%	57.2%	57.2%	58.6%	58.6% [1]	58.6%
HHS-CAS	California (Davis), Univ. of	55.5%	56.5%	57.0%	57.0%	57.0% [1]	57.0%
HHS-CAS	Texas (Austin), Univ. of	55.0%	55.0%	56.5%	56.5%	56.5% [1]	56.5%
HHS-CAS	Ohio State Univ.	54.0%	54.0%	54.0%	55.0%	56.0%	56.0%
HHS-CAS	California (Los Angeles), Univ. of	54.0%	54.0%	55.0%	56.0%	56.0%	56.0%
HHS-CAS	North Carolina (Chapel Hill), Univ. of	52.0%	52.0%	52.0%	55.5%	55.5%	55.5%
HHS-CAS	Washington (Seattle), Univ. of	54.5%	54.5%	54.5%	55.0%	55.5%	55.5%
HHS-CAS	Michigan State Univ.	53.5%	53.5%	55.0%	55.0%	55.0%	55.0%
HHS-CAS	Minnesota (Twin Cities), Univ. of	52.0%	52.0%	52.0%	53.0%	54.0%	54.0%
HHS-CAS	Arizona, Univ. of	52.5%	53.0%	53.5%	53.5%	53.5%	53.5%
HHS-CAS	Wisconsin (Madison), Univ. of	53.0%	53.0%	53.0%	53.0% [1]	53.0% [1]	53.0%
HHS-CAS	Iowa, Univ. of	51.0%	51.0%	52.5%	52.5%	52.5% [1]	52.5%
HHS-CAS	Florida, Univ. of	50.0%	50.0%	52.5%	52.5%	52.5%	52.5%
HHS-CAS	Maryland (College Park), Univ. of	52.0%	52.0%	52.0% [1]	52.0% [1]	52.0% [1]	52.0%
HHS-CAS	Texas A&M Univ.	45.5%	48.5%	48.5%	48.5%	48.5% [1]	48.5%

Notes: [1] Provisional (until modified by agreement with the Federal Government)

- We typically have been in the middle of our official, ABOR-designated peer group
- Average negotiated F&A rate for universities across the United States is 53%

Additional Resources

- **Rand Corporation:**
  - History of the Cost Principles: http://www.rand.org/content/dam/rand/pubs/monograph_reports/MR1135-1/MR1135-1-appa.pdf
- **Council on Governmental Relations (COGR):**
  - Costs of Federally-Sponsored Research: http://www.cogr.edu/sites/default/files/Costs%20of%20Research%20Infographic%20170523_0.pdf
  - Federally Funded Academic Research Costs: http://www.cogr.edu/sites/default/files/COGR%20One%20Pager.pdf
  - Primer on F&A and Research Operating Costs: http://www.cogr.edu/sites/default/files/1FA_2017_PRIMER.pdf
  - Frequently Asked Questions about Facilities and Administrative (F&A): http://www.cogr.edu/sites/default/files/FA_FAQ_FINAL.pdf
  - Talking points – developed after Secretary of HHS raised concerns about F&A costs during recent Congressional appropriations hearings for NIH: http://www.cogr.edu/sites/default/files/2FA%20Talking%20Points_0.pdf

THE UNIVERSITY OF ARIZONA