

Current College & University Indirect Cost Issues

Department of Health & Human Services
Division of Cost Allocation (DCA)

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DCA MISSION

- Negotiate indirect cost rates, facilities and administrative (F&A) cost rates, special rates and cost allocation plans with grantees receiving Federal awards
- Provide technical assistance and training on related cost policies and business practices to Federal and grantee customers

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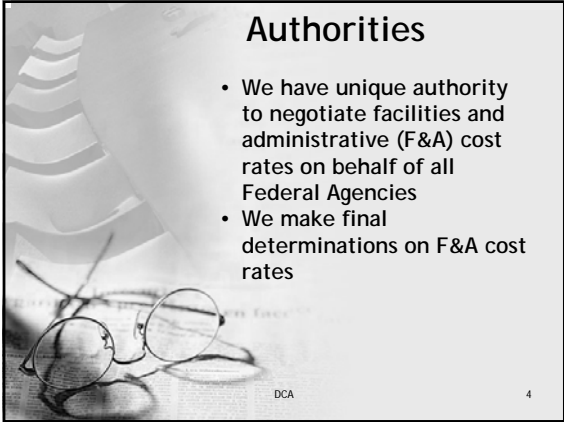
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DCA Field Office Locations



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Authorities

- We have unique authority to negotiate facilities and administrative (F&A) cost rates on behalf of all Federal Agencies
- We make final determinations on F&A cost rates

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THE PROCESS

- Grantee submits Facilities and Administrative (F&A) cost rate proposal to DCA
- DCA reviews proposal for allowable and allocable costs based on Federal cost principles - 2 CFR Part 220 (OMB Circular A-21)
- DCA negotiates F&A cost rates and then issues a rate agreement
- The agreement allows the Federal government to reimburse the grantee

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F&A COSTS

F&A costs are incurred for common or joint purposes benefiting more than one cost objective.

F&A costs include:

- Operations & Maintenance (O&M)
- Building & Equipment Depreciation
- Interest Expenses
- General, Departmental and Sponsored Projects Administration
- Library Expenses

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F&A COST RATE

- The applicable allocated F&A costs represent the pool or the numerator
- The applicable Modified Total Direct Costs (MTDC) represent the base or the denominator
- Multiple F&A cost rates may be negotiated when necessary or appropriate
- Each F&A cost rate is calculated using its own distinct allocated F&A costs and MTDC base

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Areas of Concern Not Fully Covered in an F&A Cost Rate Proposal Review

- Cost Sharing/Effort Reporting
- Exclusion of Tuition Remission from MTDC
- Terminal Leave charged to awards
- Useful Lives for Depreciation
- F&A Type Costs Charged Directly
- Rebates or Refunds Applicable to Federal Govt.
- Specialized Service Facility Rates
- Appropriate F&A Rate Applied to Award

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Cost Sharing/Effort Reporting

- Cost sharing needs to be identified and quantified so the costs are properly included in the research base for developing the F&A rate
- Costs should follow the project or activity, not the funding source. For example, a PI who commits 50% of their salary as effort to a Federal research project while only requesting 25% salary reimbursement has committed to cost sharing. The cost shared amount (25%), even if funded through an unrestricted institutional account, must be included as a cost of the sponsored research project and be included in the research base for developing the F&A rate

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Cost Sharing/Effort Reporting

- **Mandatory cost sharing** – mandatory cost sharing is required by the sponsor as a condition of obtaining an award. When an award is received that requires mandatory cost sharing, that cost sharing becomes an institutional commitment. All mandatory cost sharing must be documented and included in the research base for the F&A rate proposal

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Cost Sharing/Effort Reporting

- **Voluntary committed cost sharing** - voluntary committed cost sharing represents a commitment made to a sponsored project either through the budget or through the narrative description. If an award made to an institution contains voluntary committed cost sharing, the institution is responsible for documenting that cost shared commitment and including it in the research base for the F&A rate proposal

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Cost Sharing/Effort Reporting

- **Voluntary uncommitted cost sharing** - voluntary uncommitted cost sharing (VUCS) is restricted to only university faculty (including senior researchers) effort that is over and above that which is committed and budgeted for in a particular project. VUCS excludes effort devoted to a project that was originally committed by the faculty, including senior researchers, or is a result of a shift in workload. VUCS does not need to be included in the research base or be reflected in any allocation of F&A costs

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Tuition Remission

- The exclusion from the MTDC base in the published rate agreement refers to:
STUDENT TUITION REMISSION
- The allowable tuition remission in the fringe benefit rate and listed in the Special Remarks section of the published rate agreement refers to:
EMPLOYEE TUITION REMISSION

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Tuition Remission

- For F&A purposes, if a student receives payment for tuition or any amount of tuition is waived, this is student tuition remission
- F&A rates should not be applied to student tuition remission
- Student tuition remission should be excluded from the MTDC base

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Terminal Leave

- Defined as earned vested leave that is unused at the time of an employee's termination of employment
- Normally, it is not proper to charge a grant for this expense

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Terminal Leave treated as Severance Pay

- A-21, J10h(1):
Severance pay is compensation in addition to regular salary and wages which is paid by an institution to employees whose services are being terminated.
- A-21, J10h(2):
Severance payments.....may be allowed provided the actual costs of such severance payments are regarded as expenses applicable to the current fiscal year and are equitably distributed among the institution's activities during that period.

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Terminal Leave Options

- Include all terminal leave in the fringe benefit cost rate
- If the institution does not have a fringe benefit cost rate, two options may be considered:
 - A terminal leave reserve may be established by developing a charging rate similar to a recharge center rate, or a self-insurance reserve. Upon termination of an employee, unused leave vested by the employee will be charged to the reserve account. This university developed internal rate will not be published on the rate agreement.
 - In some cases, a separate terminal leave rate may be approved and published on the rate agreement.

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Building and Equipment Depreciation

- OMB has restricted DCA's ability to question the useful lives of buildings and equipment where the depreciation is recorded on the financial statements
- An audit should examine whether the useful lives used in the financial statements are based on historical experience

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F&A Type Costs Charged Directly

- Issues regarding similar F&A type expenses being charged directly to Federal awards
- This is a CAS 502 violation due to inconsistent costing
- Examples include:
 - Department paid O&M
 - Administrative Salaries
 - Administrative Supplies

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Rebates or Refunds Applicable to Federal Government

When the Feds share in the costs, they should share in the refund. Some examples include:

- Medicare refunds received due to a university's own funding of post retirement prescription drugs since the negotiated fringe benefit rates may include post retirement health care
- Utility refunds since utility costs are included in the negotiated F&A cost rates

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Specialized Service Facilities Billing Rates

- Rates should recover no more than the cost of the good or service
- Rates must break-even over time, each year's surpluses and deficits are included in the next year's calculated rates
- Rates don't discriminate between users, especially Federal funded users
- Surplus from recharge centers shouldn't be used to fund unrelated activities

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Specialized Service Facilities Billing Rates

- Must maintain published price list
- Depreciation included in rates can't also be in the F&A rate

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Specialized Service Facilities Billing Rates - Equipment

- Rates may include depreciation expense only, not the full cost of the equipment
- GAAP requires that the cost of the asset is to be spread over its useful life
- OMB A-21 mandates the calculation of depreciation expenses for Federal costing purposes in a manner consistent with that used for accounting for depreciation on its financial statements

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Specialized Service Facilities Billing Rates - Equipment

- Centers may not mark up billing rates to accumulate a reserve for equipment replacement and additions
- This is a violation of OMB A-21 which states, "charges for the use of specialized services should be designed to recover not more than the aggregate cost of the services"

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Service Centers – Billing Rates

- Billing rates should not discriminate between Federal and non-Federal users including internal university activities
- Billing rates must be adjusted at least biennially (every two years) to adjust for under or over recoveries

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Service Centers – Billing Rates

- Variances between the billed costs and actual costs should normally be treated as adjustments to future billing rates
- For reconciliation purposes, revenue should include all revenue (including imputed revenue for unbilled services or services provided at a discount to certain users)

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Service Centers – Billing Rates

- Fund deficits should not be transferred to F&A cost pools and surpluses should not be diverted for other uses
- Surpluses and deficits associated with multiple service units must be treated individually within each unit. Surpluses and deficits may not be used to off-set other units of service

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Service Centers – Billing Rates

- Higher or lower rates may be charged to non-Federal users
- But a record of actual use must be kept and when calculating the year end under or over recovery of the service center, the normal charge rate should be applied to the units of service that were not charged the full rate or that were charged a higher rate. For those charged lower or no rates, this is referred to as imputing or imputed revenue

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Appropriate F&A Rate Applied to Award

- Normally F&A cost rates are negotiated on a predetermined basis for a 3 to 4 year time period
- Therefore, the applicable F&A rate from the rate agreement (Research, OSP, Public Service, etc.) should not change during this period unless the rare occurrence of a significant change in the scope of the award changes the appropriate F&A rate

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Appropriate F&A Rate Applied to Award

- Unless the rare occurrence of a significant change in the scope of the award changes the appropriate F&A rate, the treatment of the award in the F&A cost rate proposal should match the F&A rate applied (for example if in Research MTDC then use Research F&A rate, if in Public Service MTDC then use Public Service F&A rate)

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