General Session (8:30-9:20):
“Research Update”
STEW 302

Breakout Sessions (9:30-10:40 & 10:50-12:00)

“Subrecipient Monitoring”
STEW 202

“Effective Communication in Research Administration”
STEW 310

“Facility and Administrative Cost Overview”
STEW 302

Hot Topics In Research Administration
Facilities & Administrative Costs Overview

Kim Hoebel
Managerial Accounting

Ken Sandel
Sponsored Program Services
Types of Costs to Sponsored Programs

DIRECT COST AND IN-DIRECT COSTS

“Direct Costs”

“Indirect Costs”

Costs of Federally Sponsored Research

The total cost of federally sponsored research includes a combination of both direct and facilities and administrative (F&A) costs. Both types of expenditures are key to an institution’s ability to conduct cutting-edge research. F&A consists of the construction and maintenance costs of laboratories and high-tech facilities; energy and utility expenses; and safety, security, and other government-mandated expenses. These costs are real and research cannot be conducted without them.

- Personnel in support of research, including security, financial, administrative, technical, maintenance, and janitorial staff
- Costs of federal, state, and local regulatory compliance, including human and animal safety review boards
- Advanced research lab equipment
- Library and research facilities
- Radiation and chemical safety, including safety training and hazardous waste disposal
- Secure data storage, internet, telecommunications, and high-speed data processing
- Utilities – ventilation, heat, air conditioning, water, and lighting

Direct costs - These expenses solely cover research and include lab supplies and equipment; salaries and stipends for researchers and graduate students; and travel costs for conducting and sharing research.

Upkeep of any building space not used directly for federally funded research, such as classrooms or lobbies, is not covered by F&A reimbursement.

AAMC  Association of American Universities  AIRI  Association for Internet Research  Public Affairs Council  Council On Governmental Relations
What is F&A?

FACILITIES & ADMINISTRATIVE COSTS (F&A)

- Also termed indirect recovery costs (ICR) or overhead costs

- Real costs incurred for common or joint objectives

- Cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity

- Principles and costs are defined by the Office of Management and Budget in the federal regulations within the Uniform Guidance (UG)
What is F&A?

**FACILITIES**

- Interest on debt associated with buildings
- Building depreciation
- Equipment depreciation
- Operation and Maintenance expenses
  - e.g., Utilities, Building Maintenance, Grounds, Custodial, REM, Fire, Police and other physical facilities
- Library expenses
What is F&A?

ADMINISTRATIVE

• General administration and general expenses
  • e.g., Offices of the President, CFO, Comptroller’s Office, Business Offices, Information Systems, Human Resources, General Counsel, and Procurement

• Departmental administration
  • Administrative portion of the Deans offices in the colleges including the portion of the Dean’s effort that is calculated as administrative along with the effort of their secretarial support staff

• Sponsored projects administration
  • e.g., Pre-award, Post-award, Compliance and Contracting

• Student administration and services
  • e.g., Admissions Office, Office of the Registrar, Dean of Students, and Financial Aid
How is the F&A Rate Calculated?

**CALCULATION**

- Begin with the expenses in the University’s audited financial statements
- Limit to the campus that is being calculated
- Remove exclusions to get to Modified Total Direct Cost (MTDC)
  - MTDC exclusions
    - Capital equipment
    - Other capital expenditures (construction and improvements)
    - Participant Support
    - Student Tuition Remissions
    - Scholarships and Fellowships
    - Cost of renting/leasing building or space
      - (Significant equipment rental may also qualify)
    - Portion of each sub-award over $25K
How is the F&A Rate Calculated?

**CALCULATION**

- Reclassify costs to appropriate pools and bases as required by Uniform Guidance
  - Pools - F&A (Overhead Costs)
    - Facilities pools
    - Administrative pools (capped by federal law at 26%)
  - Bases – Modified direct expenses by mission area
    - Instruction & Departmental Research
    - Organized Research
    - Other Sponsored Programs
    - Other Institutional Activities

- Allocate according to methods described in Uniform Guidance

- Calculate the F&A rate by dividing allocated Overhead Costs by MTDC for each Base

- Submit and Negotiate
  - Highly regulated, negotiated and is administered by the federal government
How is the F&A Rate Calculated?

**Total University Expenditures**
- Remove Exclusions
- Allocate them into Cost Pools and Bases

**Facilities Cost Pools:**
- Interest
- Building Depreciation
- Equipment Depreciation
- Operations & Maintenance
- Libraries

**Administrative Cost Pools**
- General & Administrative
- Departmental Administration
- Sponsored Projects Admin.
- Student Services

**Cost Pools and Bases**
- Instruction and Departmental Research Base
- Organized Research Base
- Other Sponsored Activity Base
- Other Institution Activities Base
How is the F&A Rate Calculated?

<table>
<thead>
<tr>
<th>Instruction and Departmental Research Rate</th>
<th>Organized Research Rate</th>
<th>Other Sponsored Activity Rate</th>
<th>Other Institution Activities Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overhead Costs (Pools)</strong></td>
<td><strong>Overhead Costs (Pools)</strong></td>
<td><strong>Overhead Costs (Pools)</strong></td>
<td><strong>Overhead Costs (Pools)</strong></td>
</tr>
<tr>
<td>Divided by</td>
<td>Divided by</td>
<td>Divided by</td>
<td>Divided by</td>
</tr>
<tr>
<td><strong>MTDC Base</strong></td>
<td><strong>MTDC Base</strong></td>
<td><strong>MTDC Base</strong></td>
<td><strong>MTDC Base</strong></td>
</tr>
<tr>
<td>Equals</td>
<td>Equals</td>
<td>Equals</td>
<td>Equals</td>
</tr>
<tr>
<td><strong>F&amp;A Rate %</strong></td>
<td><strong>F&amp;A Rate %</strong></td>
<td><strong>F&amp;A Rate %</strong></td>
<td><strong>F&amp;A Rate %</strong></td>
</tr>
</tbody>
</table>
What are Purdue’s F&A Rates?

WEST LAFAYETTE- THROUGH 6/30/21, REGIONAL CAMPUSES – THOUGH 6/30/18

- The campus F&A rates are negotiated every three to four years with the cognizant agency - Department of Health & Human Services (DHHS)

- The current F&A Rate agreements can be found at the following location: [https://www.purdue.edu/business/sps/postaward/bs/accountmgmt/fahome.html](https://www.purdue.edu/business/sps/postaward/bs/accountmgmt/fahome.html)

<table>
<thead>
<tr>
<th>Campus</th>
<th>Negotiated Rate</th>
<th>Full Cost (Uncapped)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Activity</td>
<td>On-Campus</td>
</tr>
<tr>
<td>West Lafayette</td>
<td>Research</td>
<td>55.0%</td>
</tr>
<tr>
<td></td>
<td>Instruction</td>
<td>54.0%</td>
</tr>
<tr>
<td></td>
<td>OSP</td>
<td>38.0%</td>
</tr>
<tr>
<td>PNW Hammond</td>
<td>Research</td>
<td>47.0%</td>
</tr>
<tr>
<td></td>
<td>Instruction</td>
<td>47.0%</td>
</tr>
<tr>
<td>IPFW</td>
<td></td>
<td>47.0%</td>
</tr>
<tr>
<td>PNW Westville</td>
<td></td>
<td>47.0%</td>
</tr>
</tbody>
</table>
What do other Universities Charge?

**SOURCE:** WRITTEN TESTIMONY OF DR. KELVIN DROEGMEIER VPR, UNIV. OF OKLAHOMA TO APPROPRIATIONS SUB-COMMITTEE OF LABOR, HEALTH AND HUMAN SERVICES, EDUCATION AND RELATED AGENCIES - U.S. HOUSE OF REPRESENTATIVES “ROLE OF F&A IN SUPPORTING NIH FUNDED RESEARCH”

- Ten-year trend of annualized percent change in F&A rates for 107 U.S. research institutions:

<table>
<thead>
<tr>
<th>Reporting Cohort</th>
<th>FY 2007</th>
<th>FY 2017</th>
<th>Annualized Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>51.2</td>
<td>55.0</td>
<td>+0.8%</td>
</tr>
<tr>
<td>Median</td>
<td>50.3</td>
<td>54.5</td>
<td>+0.7%</td>
</tr>
<tr>
<td>Purdue</td>
<td>52.5</td>
<td>55.0</td>
<td></td>
</tr>
</tbody>
</table>
How do you select the rate to charge?

**BY ACTIVITY TYPE AND LOCATION**

**Activity**
- **Research**: Research and scholarship activities include the inquiry, experiment, or investigation (81% - includes fellowships)

- **Instruction**: Instruction is defined as teaching, training activities, and curriculum development (2%)

- **Other Sponsored Activities**: Performance of work other than Sponsored Instruction or Sponsored Research (17%)

**Location**
- **On-Campus**: The on-campus F&A rate will be applied to any sponsored project unless special circumstances exist. (94%)

- **Off Campus**: The off-campus rate must be used when the project is to be conducted at an off-campus site in facilities not owned by the University and to which rent is directly allocated to the project(s) (6%)
How do you Charge the F&A Rate?

**MODIFIED TOTAL DIRECT COST**

- F&A Costs are charged as a percentage of modified total direct costs (MTDC)

- MTDC exclusions include:
  - Capital equipment
  - Other capital expenditures (construction and improvements)
  - Participant support
  - Student tuition remissions
  - Scholarships and Fellowships
  - Cost of renting/leasing building or space (Significant equipment may also qualify)
  - Portion of each sub-award over $25K
### How do you Charge the F&A Rate?

**MODIFIED TOTAL DIRECT COST**

- Example 1:

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Expense</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$250,000</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>35,000</td>
<td>MTDC Exclusion</td>
</tr>
<tr>
<td>Total Direct</td>
<td>$335,000</td>
<td></td>
</tr>
<tr>
<td>Indirect Cost (55%)</td>
<td>165,000</td>
<td>$335,000-$35,000 = $300,000 * 55%</td>
</tr>
<tr>
<td>Total Sponsor Cost</td>
<td>$500,000</td>
<td></td>
</tr>
</tbody>
</table>

- F&A recovered/Total Expenses including F&A and Exclusions = 33%
- F&A Recovered/ Total Expense less GL Exclusions and F&A = 55%
How do you Charge the F&A Rate?

**MODIFIED TOTAL DIRECT COST**

- **Example 2:**

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Expense</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Faculty Salaries</td>
<td>$115,000</td>
<td></td>
</tr>
<tr>
<td>Grad Salaries</td>
<td>50,000</td>
<td></td>
</tr>
<tr>
<td>Grad Fee Remits</td>
<td>24,000</td>
<td>MTDC Exclusion</td>
</tr>
<tr>
<td>Supplies</td>
<td>10,000</td>
<td></td>
</tr>
<tr>
<td>Subcontract</td>
<td>125,000</td>
<td>@$25,000 excluded from MTDC</td>
</tr>
<tr>
<td>Equipment</td>
<td>66,000</td>
<td>MTDC Exclusion</td>
</tr>
<tr>
<td>Total Direct</td>
<td>$390,000</td>
<td></td>
</tr>
<tr>
<td>Indirect Cost (55%)</td>
<td>110,000</td>
<td>$390,000-$190,000 = $200,000 * 55%</td>
</tr>
<tr>
<td>Total Sponsor Cost</td>
<td>$500,000</td>
<td></td>
</tr>
</tbody>
</table>

- F&A recovered/Total Expenses including F&A and Exclusions = 22%
- F&A Recovered/ Total Expense less GL Exclusions and F&A = 55%
When don’t we Charge F&A?

HISTORIC EXCEPTIONS TO FULL F&A RECOVERY

• State of Indiana funding (except in the case of certain agencies and programs which have a history of paying F&A)

• Federal funds subject to a statutory cap on F&A (e.g., USDA)

• Purdue has accepted reduced F&A for not-for-profits and foundations (as long as the restrictions are published as part of the organizations guidelines)

• Proposal for less than $10K from corporations, foundations and not-for-profit organizations.

• Unrestricted Gifts/Voluntary Support (Policy II.B.6)
What do we actually recover from F&A?

**EFFECTIVE YIELD RATES**

- FY 2016 West Lafayette Campus
  - Total Expenses $363.2 M
  - MTDC Exclusions* $52.2 M
  - Total Exclusions** $132.5 M
  - MTDC Base $244.7 M ($363.2 - $52.2 M - $66.3 M)
  - Adjusted Base $164.4 M ($363.2 - $132.5 M - $66.3 M)
  - F&A Recovery $66.3 M

3 Measures of Yield
- F&A recovered/Total Expenses including F&A and Exclusions = 18.24%
- F&A Recovered/Total Expense less GL Exclusions and F&A = 27.08%*
- F&A Recovered/Total Expense less All Exclusions and F&A = 40.3% **

*Note that the exclusions on the SPS sponsor summary report include both direct expenses items (GLs) that are exclusions from MTDC plus the F&A charged to sponsors

** Direct expense items exempt from the MTDC base and IOs that do not charge F&A (e.g. Fellowships, Voluntary Support, State of Indiana, Industrial < $10K, Foundations, Participant Support Costs and other exemptions based on policy/practice).
What do we actually recover from F&A?

**WL FY2016 SNAPSHOT OF EFFECTIVE YIELD RATES BY SPONSOR (IN MILLIONS)**

<table>
<thead>
<tr>
<th>Sponsor</th>
<th>Total Expense</th>
<th>MTDC Exclusions *</th>
<th>MTDC Base</th>
<th>F&amp;A recovery</th>
<th>Yield based on Total Expenses</th>
<th>Yield based on MTDC</th>
<th>Yield based on All Exclusions **</th>
</tr>
</thead>
<tbody>
<tr>
<td>NSF</td>
<td>65.2</td>
<td>12.9</td>
<td>35.7</td>
<td>16.5</td>
<td>25.34%</td>
<td>46.23%</td>
<td>52.20%</td>
</tr>
<tr>
<td>DHHS</td>
<td>42.1</td>
<td>6.1</td>
<td>24.4</td>
<td>11.6</td>
<td>27.53%</td>
<td>47.44%</td>
<td>48.00%</td>
</tr>
<tr>
<td>DOD</td>
<td>34.5</td>
<td>6.5</td>
<td>18.6</td>
<td>9.4</td>
<td>27.21%</td>
<td>50.51%</td>
<td>50.70%</td>
</tr>
<tr>
<td>USDA</td>
<td>22.1</td>
<td>2.4</td>
<td>16.6</td>
<td>3.0</td>
<td>13.73%</td>
<td>18.23%</td>
<td>21.80%</td>
</tr>
<tr>
<td>DOE</td>
<td>21.9</td>
<td>3.3</td>
<td>12.5</td>
<td>6.1</td>
<td>27.84%</td>
<td>48.65%</td>
<td>51.90%</td>
</tr>
<tr>
<td>NASA</td>
<td>6.9</td>
<td>1.6</td>
<td>3.9</td>
<td>1.4</td>
<td>20.39%</td>
<td>35.99%</td>
<td>45.60%</td>
</tr>
<tr>
<td>DOT</td>
<td>5.9</td>
<td>2.1</td>
<td>2.6</td>
<td>1.2</td>
<td>21.00%</td>
<td>47.40%</td>
<td>47.70%</td>
</tr>
<tr>
<td>AID</td>
<td>5.0</td>
<td>0.8</td>
<td>3.2</td>
<td>1.0</td>
<td>20.53%</td>
<td>32.23%</td>
<td>33.30%</td>
</tr>
<tr>
<td>E.D.</td>
<td>2.6</td>
<td>0.2</td>
<td>1.9</td>
<td>0.5</td>
<td>19.13%</td>
<td>26.34%</td>
<td>29.70%</td>
</tr>
<tr>
<td>EPA</td>
<td>1.1</td>
<td>0.1</td>
<td>0.7</td>
<td>0.3</td>
<td>26.64%</td>
<td>40.52%</td>
<td>37.20%</td>
</tr>
<tr>
<td>DOI</td>
<td>1.0</td>
<td>0.0</td>
<td>0.8</td>
<td>0.1</td>
<td>12.89%</td>
<td>15.57%</td>
<td>20.20%</td>
</tr>
<tr>
<td>Other Government</td>
<td>12.1</td>
<td>2.6</td>
<td>7.0</td>
<td>2.4</td>
<td>20.10%</td>
<td>34.42%</td>
<td>39.10%</td>
</tr>
<tr>
<td>Industrial Profit</td>
<td>47.8</td>
<td>12.2</td>
<td>27.9</td>
<td>7.8</td>
<td>16.22%</td>
<td>27.84%</td>
<td>52.10%</td>
</tr>
<tr>
<td>Industrial Non-Profit</td>
<td>46.7</td>
<td>1.0</td>
<td>42.4</td>
<td>3.3</td>
<td>7.08%</td>
<td>7.79%</td>
<td>17.9%</td>
</tr>
<tr>
<td>State</td>
<td>16.0</td>
<td>0.1</td>
<td>15.1</td>
<td>0.8</td>
<td>4.79%</td>
<td>5.07%</td>
<td>8.50%</td>
</tr>
<tr>
<td>JTRP</td>
<td>5.7</td>
<td>0.0</td>
<td>5.7</td>
<td>0.0</td>
<td>0.00%</td>
<td>0.00%</td>
<td>N/A</td>
</tr>
<tr>
<td>Foreign Gov.</td>
<td>5.8</td>
<td>0.3</td>
<td>4.8</td>
<td>0.8</td>
<td>13.39%</td>
<td>16.43%</td>
<td>28.40%</td>
</tr>
<tr>
<td>PRF Research Grants/PU</td>
<td>20.6</td>
<td>0.0</td>
<td>20.6</td>
<td>0.0</td>
<td>0.00%</td>
<td>0.00%</td>
<td>N/A</td>
</tr>
<tr>
<td>Gift/Vol Sup Adm by SPS</td>
<td>0.1</td>
<td>0.0</td>
<td>0.1</td>
<td>0.0</td>
<td>0.00%</td>
<td>0.00%</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td><strong>363.2</strong></td>
<td><strong>52.2</strong></td>
<td><strong>244.7</strong></td>
<td><strong>66.3</strong></td>
<td><strong>18.24%</strong></td>
<td><strong>27.08%</strong></td>
<td><strong>40.30%</strong></td>
</tr>
</tbody>
</table>

*Note that the exclusions on the SPS sponsor summary report include both direct expenses items (GLs) that are exclusions from MTDC plus the F&A charged to sponsors.

** Yield when you exclude direct expense items (GLs) exempt from the MTDC base and IOs that do not charge F&A (e.g. fellowships, Voluntary Support, State of Indiana, Industrial < $10K, Foundations, and other exemptions based on policy/practice).
WAYS TO POSITION F&A

• Both direct and indirect costs (F&A) are real cost incurred by the institution to conduct research

• F&A pays for all the things seen and unseen to support their research

• F&A costs cannot readily be assigned to a given project so averages are used to charge them

• Purdue’s rates are right at the average and median for other research institutions

• Without F&A recovery we would have to scale back research, close labs, hire fewer students and reduce the workforce that supports our researcher

• Less F&A would not open up more money for research since F&A costs have to be covered somehow
“Benjamin Franklin once wrote that the Constitution might not last forever, but that death and taxes would forever be with us. To those who have been attentive to the relationship between the federal government and the nation’s universities since the end of World War II, indirect cost recovery deserves a place on that short list. Like the first two, the problem of indirect costs is inherently insoluble, and also like them, it excites extraordinary passions among people who are normally quite peaceable and reasonable.”
Facilities & Administrative Costs

Questions
General Session (8:30-9:20): “Research Update” STEW 302

Breakout Sessions (9:30-10:40 & 10:50-12:00)

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