



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”

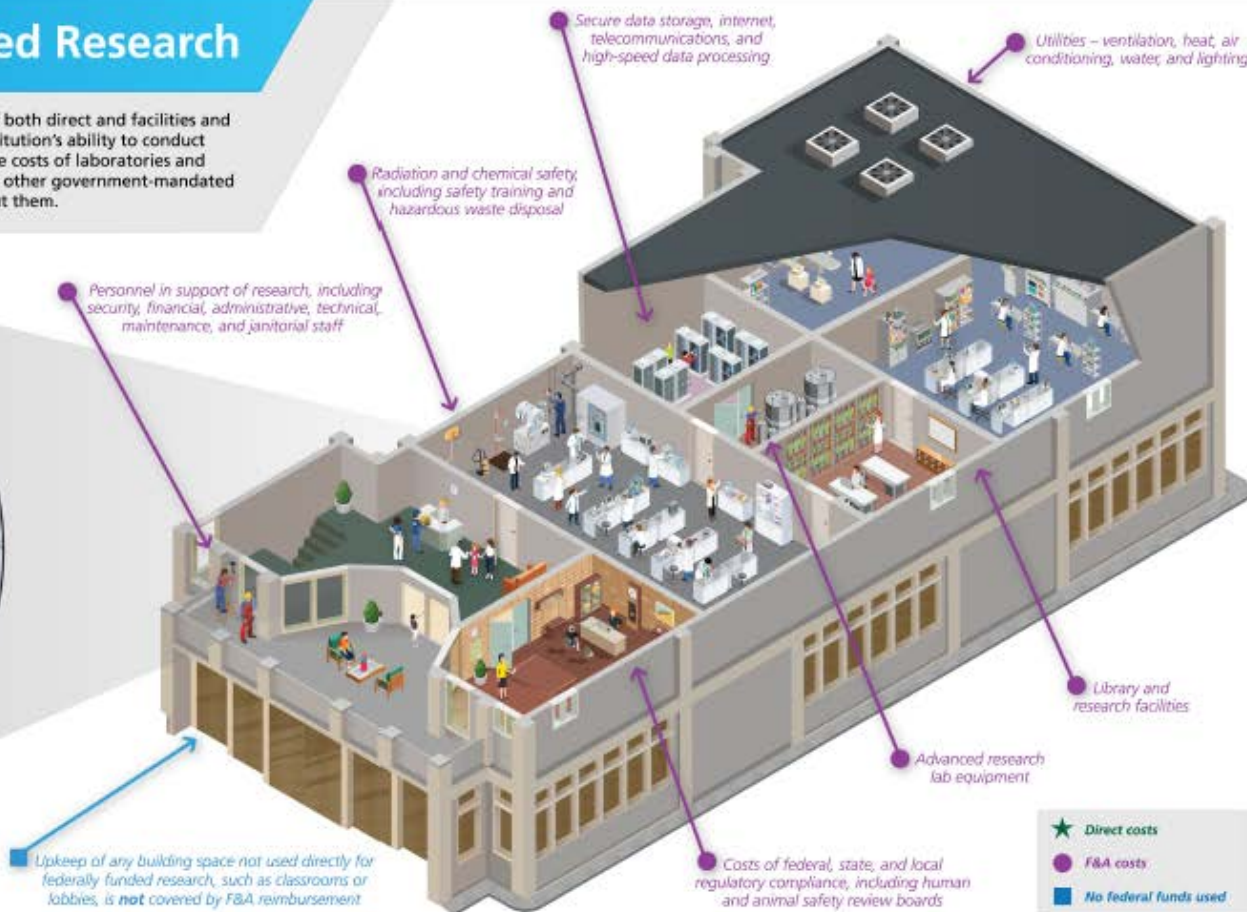
“In-Direct Costs”

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.



★ 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





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

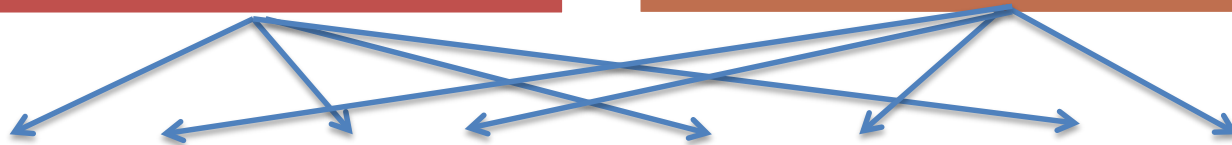
Facilities Cost Pools:

- ✓ Interest
- ✓ Building Depreciation
- ✓ Equipment Depreciation
- ✓ Operations & Maintenance
- ✓ Libraries

Administrative Cost Pools

- ✓ General & Administrative
- ✓ Departmental Administration
- ✓ Sponsored Projects Admin.
- ✓ Student Services

In-Direct



Direct

Instruction and
Departmental
Research Base

Organized Research
Base

Other Sponsored
Activity Base

Other Institution
Activities Base

How is the F&A Rate Calculated?

Instruction and Departmental Research Rate	Organized Research Rate	Other Sponsored Activity Rate	Other Institution Activities Rate
Overhead Costs (Pools)	Overhead Costs (Pools)	Overhead Costs (Pools)	Overhead Costs (Pools)
Divided by	Divided by	Divided by	Divided by
MTDC Base	MTDC Base	MTDC Base	MTDC Base
Equals	Equals	Equals	Equals
F&A Rate %	F&A Rate %	F&A Rate %	F&A Rate %

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>

Campus	Negotiated Rate		Full Cost (Uncapped)	
	On-Campus	Off-Campus	On-Campus	Off-Campus
West Lafayette				
Research	55.0%	26.0%	64.75%	30.10%
Instruction	54.0%	26.0%	72.22%	40.56%
OSP	38.0%	26.0%	41.24%	27.63%
PNW Hammond	47.0%	26.0%	53.97%	30.83%
IPFW	47.0%	26.0%	67.46%	40.25%
PNW Westville	47.0%	26.0%	76.17%	76.17%

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:

Reporting Cohort	FY 2007	FY 2017	Annualized Percent Change
Average	51.2	55.0	+0.8%
Median	50.3	54.5	+0.7%
Purdue	52.5	55.0	

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:

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

- 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:

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

- 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-\$52.2M-\$66.3M**)
 - Adjusted Base \$164.4 M (**\$363.2-\$132.5M-\$66.3M**)
- 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)

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

* 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).

Talking Points

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

Interesting Read

WRITTEN TESTIMONY OF DR. KELVIN DROEGMEIER VPR, UNIV. OF OKLAHOMA

<http://www.cogr.edu/sites/default/files/Droegemeier%20Full%20Written%20Testimony%20FINAL.pdf>

“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.**”

1

Written Testimony of Dr. Kelvin K. Droegemeier

Vice President for Research

Regents’ Professor of Meteorology and Weathernews Chair Emeritus

University of Oklahoma

Secretary of Science and Technology, Cabinet of Oklahoma Governor Mary Fallin

Submitted to the Appropriations Sub-Committee on Labor, Health and Human Services,
Education and Related Agencies

United States House of Representatives

for the hearing titled

The Role of Facilities and Administrative Costs in Supporting NIH-Funded Research

Tuesday, October 24, 2017, 10:00 am EDT

Rayburn House Office Building, Room 2358-B

I thank Chairman Cole, Ranking Member DeLauro, and Members of the Subcommittee for the privilege of testifying on the important topic of facilities and administrative costs in research, particularly at the National Institutes for Health. My name is Kelvin K. Droegemeier, and I am Vice President for Research, Regents’ Professor of Meteorology, and Weathernews Chair Emeritus at the University of Oklahoma. I also am a former member of the National Science Board (2004-2016), the last four years as Vice Chairman, and presently serve in the Cabinet of Oklahoma Governor Mary Fallin as Secretary of Science and Technology. I am testifying today in my roles as an academic researcher, administrator, teacher, and advisor on matters of science and technology policy.

I also thank the Members of this Subcommittee for their longstanding commitment to fostering national prosperity, economic security, quality education, and international competitiveness through support for basic and translational research at the National Institutes of Health. The topic of this hearing is important to that commitment and traces its roots to the pre-World War II era. Not unlike the U.S. Constitution, the framework of facilities and administrative (F&A) costs, previously known as overhead or indirect costs, has been debated continually since its inception, has multiple interpretations depending upon one’s position in the research enterprise, and is vitally important to the nation. Consequently, this hearing is especially critical at a time when our nation’s research budgets are stressed to an unprecedented degree, and the health, national security, and other challenges facing us are daunting and depend in no small part upon a robust and stable research enterprise.

1. Direct and Indirect Costs: Definition, Application and Viewpoints

For some 80 years, funding directed toward research and development (R&D) at U.S. institutions of higher education has been bifurcated into direct and indirect costs, also known as overhead and, most recently, as facilities and administrative (F&A) costs.¹ Although the categories of funding composing these costs have changed over the years, the general concept remains

¹ The term facilities and administrative (F&A) costs came into existence in the May, 1996 revision of “Cost Principles for Higher Education Institutions” (OMB Circular A-21) to more accurately describe the components of what had previously and synonymously been known as indirect costs or overhead. Although F&A is the appropriate term for contemporary use, I continue to use the terms overhead and indirect costs as referenced in historical events and documents.

Facilities & Administrative Costs



Questions



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