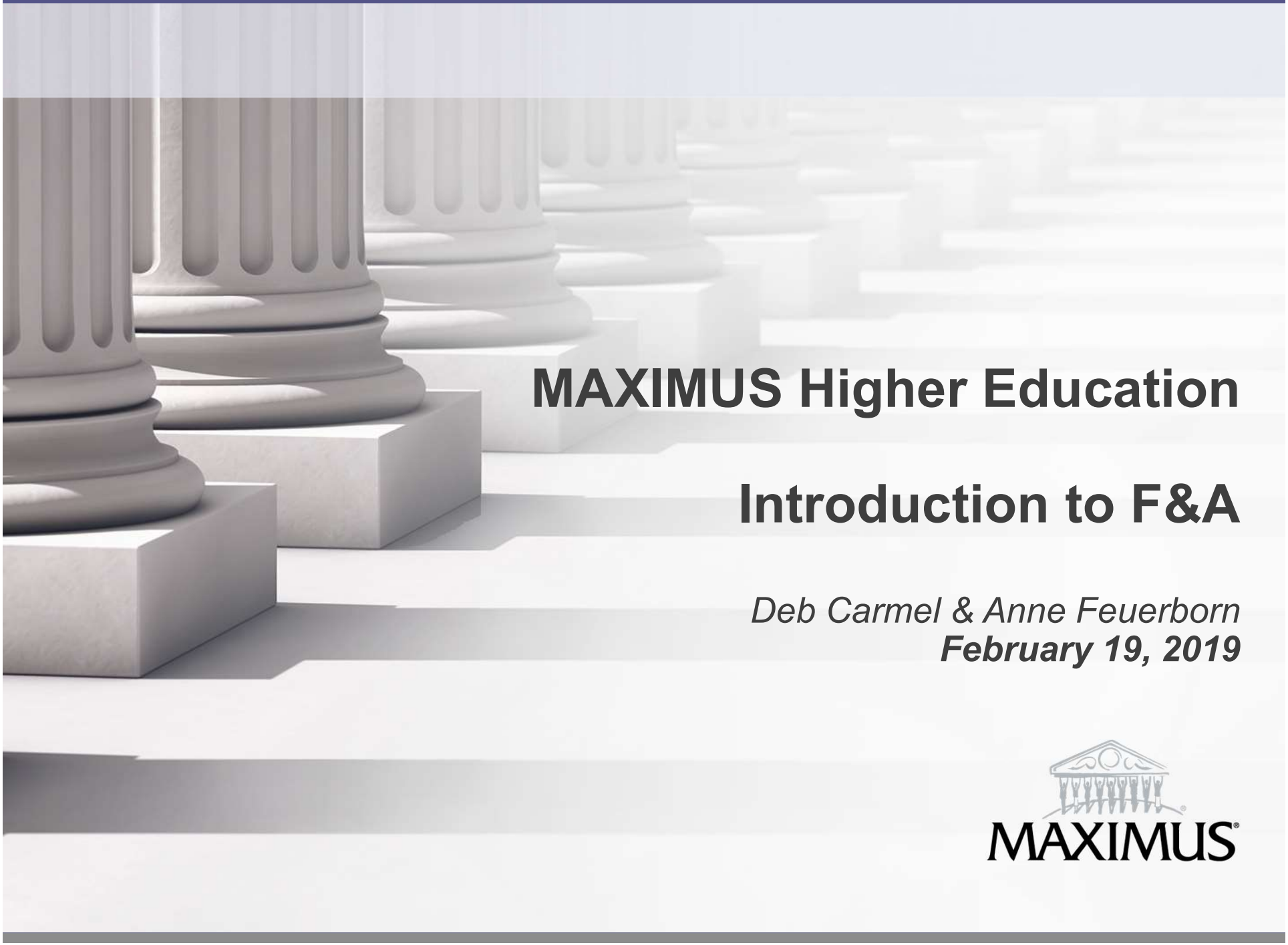

MAXIMUS Higher Education

Introduction to F&A

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MAXIMUS

Agenda

- Introduction to MAXIMUS and Higher Education Practice
- Purpose of F&A Rates
- Rate Composition and Calculation
- Proposal Review and Negotiation
- Direct and Indirect Costs of Research
- Space Survey
- How Cost Changes Affect Rate

MAXIMUS Higher Education Practice

- Serves more than 200 colleges and universities in 49 states plus Puerto Rico and the U.S. Virgin Island
  - 90 of top 100 research institutions
  - Ranging from <$1M to >$1B in research
- Headquartered in Northbrook, Illinois
  - Satellite offices in: Colorado Springs, Colorado | Lexington, Kentucky | Columbus, Ohio | Phoenix, Arizona | Charlottesville, Virginia | Bluffton, South Carolina
- MAXIMUS is a leading provider of government services worldwide with more than 30,000 employees and $2.0+ billion annual revenue

MAXIMUS Higher Education Practice

F&A Consulting Services

- F&A Cost Rate Proposal Preparation (Long and Short Form)
- Negotiations (DHHS-CAS & ONR/DCAA)
- Space Surveys/Reviews
- Fringe Benefit Rates
- Federal Disclosure Statement (DS-2) and Direct Costing Policy
- Service Centers and/or Recharge Centers Rates and Policies

F&A Software

- Comprehensive Rate Information System (CRIS®)
  - 200+ universities use CRIS
- WebSpace® – Space Utilization Software
  - 60+ universities use WebSpace

WebSpace

Other Services and Products

- Internal Controls Consulting and Effort Reporting Software (ERS)
- Uniform Guidance Diagnostics and Compliance Consulting
- Pre and Post Award Consulting Services and Training
  - Research Operational Reviews – Business Process Review and Improvement – Change Management
  - Policy Review and Development
  - Onsite and Online Training in Grant Management
  - Fringe Benefit Rates

Question

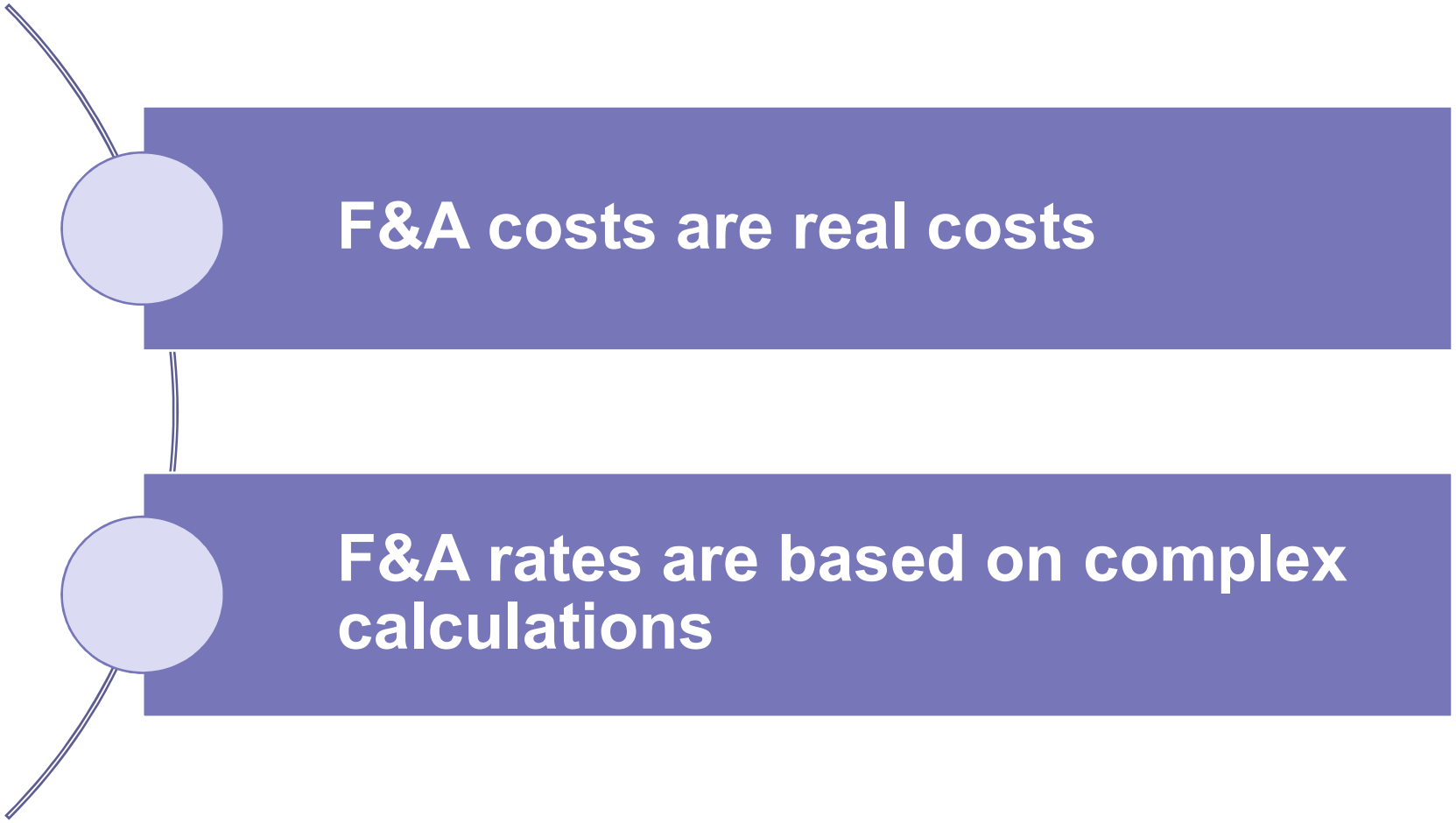
Why do we calculate F&A rates?

Purpose of F&A Rates

Answer

- To identify the portion of F&A costs applicable to major functions of the university
  - Instruction
  - **Organized Research**
  - Other Sponsored Activities (Public Service)
  - Other Institutional Activities
- **To recover F&A expenditures** allocable to sponsored activities

Rate Composition and Calculation



F&A Components – Facilities

- **Building Depreciation**
- **Equipment Depreciation**
- **Interest**
  - Cost of financing on capital items
- **Operations and Maintenance**
  - Utilities, Custodial, Environmental Safety
- **Library**
  - Books, Periodicals, Staff

Rate Composition and Calculation

F&A Components – Administration – 26%

- **General Administration**
  - President, Payroll, HR, Provost
- **Departmental Administration**
  - Dean's offices, Department support staff and supplies
- **Sponsored Projects Administration**
  - Pre and Post Award, must be separate SPA organization
- **Student Services**
  - Admissions, Registrar, Career Counseling, Student Health, Commencement
- **26% percent maximum**

Rate Composition and Calculation

Calculating Bases for F&A

- **Remove costs excluded for MTDC**
  - Capital, subcontracts >$25K, participant support, patient care, scholarships, etc.
- **Reclassify costs for the F&A Bases**
  - Determine Organized Research and OSA base
    - Only Sponsored costs + Cost Sharing
  - Instruction – includes Sponsored Instruction
    - Departmental Research (Unsponsored)

Rate Composition and Calculation

Rate Development Steps

- **Step 1**: Create cost pools
  - Split costs in indirect and direct
  - Determine specific type of pool for indirects
- **Step 2**: Determine allocation basis
  - Associating indirects with each base
- **Step 3**: Calculate the rate
  - Sum indirects allocated to a given base
  - Divide indirects by the base

Rate Composition and Calculation

Simplistic Rate Example

- Organized Research Base: **$100 Million**
- Facilities costs overall: **$240 Million**
  - Allocated to Organized Research : **$24 Million**
  - Facilities rate: $24 M/ $100 M = **24%**
- Administrative cost overall: **$200 Million**
  - Allocated to Organized Research: **$30 Million**
  - Admin rate: $30 M/ $100 M = 30%.... But **26% cap**
- **Total rate: 50%**

Question

How are F&A rates proposed?

Answer

- Two methods of calculating an F&A rate
  - **Long Form –** Required for institutions expending more than $10 million on Federal grants and contracts annually. Calculated rate will likely be higher using this method
  - **Short Form –** Simpler allocation methodologies used by institutions that have smaller research expenditures

Question

We calculated a rate increase.
Will our cognizant agency give us an increase?

Answer

- The government reviews the F&A rates closely.
- Rarely will they negotiate what is proposed
  - Usually more reductions on Long Form than Short Form.

Proposal Review and Negotiation

Government Review

- Review the calculations – poke holes in them
- Review the Space Survey – “issues” always found
- Negotiations usually consider:
  - Your past rate
  - If there are major changes at the university that substantiate a higher rate
  - Rates of other universities in your region

Proposal Review and Negotiation

F&A is important to your university

- Per A-21 and 2 CFR 200 Subpart E, the federal government will pay its fair share of total costs via the F&A rate process
- Reimbursement of F&A is what allows the university to keep investing in its research resources
- If sponsors do not pay their fair share of F&A, who will?

Question

How does the rate apply?

Answer

- The rate is applied to the direct cost of a sponsored project, and is the amount of “overhead” which is recovered. Example:
  - $100,000 of salaries, travel, supplies for research
  - 50% Research F&A rate
  - University recovers $50,000 for F&A costs
- When F&A is waived or reduced… a lot of money is lost to the institution for research infrastructure.

Question

Will Researchers get less money to conduct their research now that our F&A rate has increased?

Answer

- Both direct and indirect costs are necessary to conduct research.
- Both are included in the budget, so indirect is not “taking away” from direct.
- New F&A rates only applicable to new awards or segments.

Direct and Indirect Costs of Research

Direct Costs… the only "research" costs?

- Direct costs, per 2 CFR 200.413 are:
  - Costs which an be identified specifically with a cost objective, such as a Federal award
  - Costs which can be directly assigned to such activities relatively easily with a high degree of accuracy.
- Examples:
  - Salaries/Wages of a Principal Investigator and GRA's
  - Lab supplies
  - Project related travel
  - Equipment directly purchased by the project

Direct and Indirect Costs of Research

Where there is direct… there is indirect

- Per 2 CFR 200.414, Indirect Costs are:
  - Costs which benefit common or joint objectives
  - Costs which cannot be identified to a specific activity such as instruction or research project
- By definition, the benefit of Facilities and Administrative costs can't be determined to each sponsored project – thus why we need an F&A rate.

Question

Why would an F&A Rate increase?

Answer

- F&A Rates are a ratio between indirect and direct costs
  - e.g. $50 M Overhead/ $100 M Direct Research Costs
- Simply stated, if the F&A rate is 50%:
  - For every $1.00 spent on research
  - 50 cents of cost is incurred by the university on infrastructure to support that rate.
- If your university's rate is increasing, it means your institution's investment in research facilities, is increasing faster than growth in the base.

Question

Our university just hired a bunch of administrative staff this year – **will our F&A rate increase?**

Answer

- Unfortunately… probably not
- Administrative component is capped at 26%
- Most universities meet that cap

Direct and Indirect Costs of Research

2 CFR 200 Appendix III, C.8

- Administrative components are restricted to 26% reimbursement.
- Most universities calculate more than 26% in their F&A rate proposals.
- Therefore, more administration helps justify the 26% capped rate, but doesn't raise the rate.
- There was talk of raising this cap with the Uniform Guidance, but it didn't happen.

Direct and Indirect Costs of Research

2 CFR 200.413 – Opportunities

- Allowed to identify more admin as direct costs
- Administrative staff may be direct charged if:
  - Services are **integral**
  - Individuals can be **specifically identified** with the project
  - Such costs are **explicitly included in the budget** or have the **prior written approval** of the Federal awarding agency
  - **Not also recovered as indirect costs.**

Question

What is a Space Survey?

Answer

- A survey of the university's space usage, usually focused on research space.
- Goal is to recognize Organized Research space as the areas in which personnel are **working on and paid from** Organized Research sponsored awards.
- Time consuming – involves conducting training classes, 3 – 5 months (or more) to prepare and complete the survey.

Allocation of Facilities Components

- Facilities components allocate either by:
  - Assignable Square Footage (ASF)
  - Full Time Equivalent (FTE)
- Most Facilities costs allocate on the basis of ASF
- Land Improvements (Building component) and Library allocate based on FTE

Question

Why do we spend so much time on space surveys?

Answer

- The **space survey** is the single most important part of the F&A rate

Space Survey

- The Facilities component is uncapped.
- Therefore, identification of Facilities costs to Research is the only way to raise the rate.
- The main way to identify costs to Organized Research is to conduct a space survey.
- Often the Federal cognizant agency will come on-site and thoroughly review research-intensive space.

Space Survey

Facilities costs reliant on Space Surveys

*Items allocated based on space are denoted in **BLUE**

- **Building Depreciation**
  - Land improvements
- **Equipment Depreciation**
- **Interest**
  - **Cost of financing a structure**
- **Operations and Maintenance**
  - **Utilities, Custodial, Environmental Safety**
- Library
  - Books, Periodicals, Staff

Space Survey

A simple F&A- Facilities Component

- Facilities expense per year: $240 Million
- University space profile of 10,000 ASF is:
  - 3,000 ASF Instruction, or 30% Instruction
  - **1,000 ASF Research, or 10% Research**
  - 6,000 ASF Other Indirect/Direct, or 60% Other
- Facilities cost for Research:
  - $240 Million x .10 = $24 Million

Question

We bought a very expensive piece of research equipment in our base year.

Will it increase our rate substantially?

How Cost Changes Affect Rate

Answer

Depends…but unlikely

- Only depreciation is claimed on capital equipment
- Depreciation amount depends on useful life assigned. Scientific: usually 5 to 12 years
- Depending on the space survey of the room the equipment resides in, it may not be 100% OR
- Depending on how large the Research base is, might need millions to move the rate

How Cost Changes Affect Rate

Calculate the impact

- How large is the research base at your institution?
  - Sample base: $100 Million.
- How much would a percentage point be worth?
  - $100 Million / 100 = $1 Million per 1 percentage point
- How is a research asset depreciated?
  - Median useful live for research equipment, 10 years.
- So … How much in total cost do we have to purchase to move the rate a point?
  - $1 Million × 10 years of depreciation = **$10 Million**

Question

A new multi-million dollar research building just went online and was included in our proposal.

Will we get an huge increase in F&A rate?

Answer

- Maybe… but the full impact of a new research building usually takes few years.
- Often it can take a many months (or years) to move-in, usually significant vacant space the first couple of years
- Any new PIs hired might be on start-ups/seed money, so that the space is not yet research.
- Increase to the Research base might cancel out some of the gain from the new Facilities costs

How Cost Changes Affect Rate

What does it take to move the F&A rate?

- Costs to trickle down
  - Building is complete
  - There is equipment in the space
  - The lights are on, gas and water is running
- Space survey to support facilities costs
  - Space must be fully occupied
  - People in the space must be paid on or cost shared to *Organized Research funds*

How Cost Changes Affect Rate

Timeline of the facility

- When is the facility going online?
- Will there be a full year of depreciation in the rate?
- May have already foregone a year or two of depreciation.

How Cost Changes Affect Rate

Reality of a new facility

- Full occupancy from depreciation date
  - Minimum six months to occupy the space
  - Realistically, a year or two to occupy fully
- Who is in the space? How are they paid?
  - Seed funding?
  - Start up funding?
  - Visiting professors?
  - Unpaid Students?

Question

Our research volume went way up.
Why did our F&A rate go down?

Answer

An increase in the OR at your institution might be a silver lining with a cloud. The F&A rate is a ratio…

So if the denominator rises (the OR Base)

While the overhead doesn't change much

The rate may decrease

How Cost Changes Affect Rate

F&A Rates

- Numerator = Indirect costs
- Denominator = Direct Costs

- $50 Million/ $100 Million in 2010…. 50%
- $55 Million/ $120 Million in 2014… 45.8% Ouch!

- In this case, **Indirect costs grew 10%,** while the **base grew 20%.**
- We want the F&A costs to grow at pace, or faster, than Organized Research. Not always reality.

How Cost Changes Affect Rate

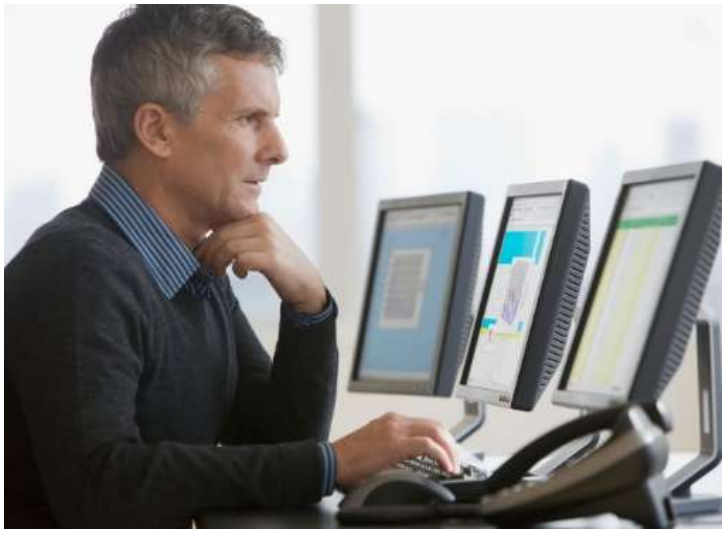
Reality of Research Growth

- Usually growth of research happens first
  - Grants and contracts can boom quickly
- Lagging behind is the infrastructure to support it
  - At your institution are faculty packed like sardines into research space?
  - Things have to reach this point before new facilities will come on-line

Conclusions

- Indirect/F&A costs are real costs.
- F&A is necessary to support research.
- It is important to recover F&A to continue re-investing in infrastructure.
- Proactive measures to raise the rate don't really work… key is continuous, steady investment in research infrastructure over time.

Upcoming Webinars



Pooled Fringe Rates – Are They Right for Your Institution
March 5 | 2:00 p.m. ET

Service Centers
June 4 | 2:00 p.m. ET

Information for F&A Short Form Institutions
July 16 | 2:00 p.m. ET

Tips for Becoming a CRIS Power User
August 20 | 2:00 p.m. ET

Alternative Methods for Documenting Compensation – October 2019

Upcoming Workshops and Annual Meeting

F&A Workshop
April 9 to April 11 | Chicago, IL

CRIS University:
Introduction to CRIS Workshop
May 14 to May 16 | Northbrook, IL

32nd Annual MAXIMUS Higher Education Practice Meeting
September 2019 | Location TBD

F&A Long Form Training Workshop –
in conjunction with Annual Meeting

Questions

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