

# KANSAS STATE UNIVERSITY

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## A GUIDE TO FACILITIES AND ADMINISTRATIVE COSTS

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## **FACILITIES AND ADMINISTRATIVE (F&A) COSTS: WHAT ARE THEY?**

Costs on sponsored projects are divided into two major categories: (1) direct costs and (2) facilities and administrative (F&A) costs. Direct costs are those costs that can be readily and specifically attributed to the scope of work of a particular program or project. These include project costs such as salaries and fringe benefits for personnel conducting the work and materials and supplies necessary to carry out the work. F&A costs – sometimes referred to as “indirect costs” or “overhead” – are project costs that cannot be readily and specifically credited on a project-specific basis. Nonetheless, F&A costs are real, quantifiable expenses incurred by the university and associated with all activities of the university, regardless of the funding source. F&A costs include, for example, the personnel costs associated with purchasing supplies and equipment for sponsored project activities, accounting for project expenditures, and providing laboratory custodial services. In addition, utilities (lights, heat, etc.), telephone and fax usage, e-mail, general office supplies, copying charges, and the like are necessary components of sponsored projects, and these indirect costs must also be borne by various elements of the institution.

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## **WHY MUST F&A COSTS BE INCLUDED IN SPONSORED PROJECT BUDGETS?**

First and foremost, F&A costs are real costs associated with conducting sponsored research. Moreover, federal and state laws and regulations require that the approved F&A cost rate be applied consistently. Recipients of federal funds are under intense scrutiny by the federal government to insure that the F&A rate is applied to *all* sponsored projects, not just those funded by the federal government.

Additionally, the Board of Regents’ policy on project cost recovery imposes a duty on university administrators and principal investigators/project directors to perform sponsored projects on a full cost basis. Therefore, it is expected that KSU will request full recovery of the direct costs as well as the associated F&A costs from all sponsors, unless such recovery is restricted by law or other public policy. Failure to recover all costs reduces the university’s capacity to perform extramural projects.

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## **WHEN ARE FULL F&A COSTS NOT REQUIRED?**

Some government sponsors limit the payment of F&A costs by statute and/or policy. This situation is frequently encountered with state agencies as well as the U.S. Department of Agriculture (USDA) and the U.S. Department of Education. When such restrictions are a non-negotiable condition of receiving the award, the differential between the sponsor mandated rate and the federally negotiated rate will normally be allowed as university cost share. In situations where funding flows from a prime sponsor through an intermediary sponsor, as in the case of federal flow-through funds, the F&A cost rate policy of the prime sponsor should be applied.

Certain other deviations from the approved F&A cost rate may be authorized and cost shared for charitable organizations (non-profit corporations) with published policies regarding reduced F&A cost rates. However, the sponsor policy exception does not generally apply to for-profit organizations or foreign governments, because Kansas’ taxpayer contributions would be subsidizing the cost of the project.

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## **WHAT IS THE PRINCIPAL INVESTIGATOR’S RESPONSIBILITY?**

When preparing a sponsored project budget, assume that the approved F&A cost rate should be used unless one of the above-noted exceptions applies. In the event that some portion of F&A expenses are cost shared, the budget can be adjusted *if all approvals are obtained in advance of the proposal submission due date*. However, *all* proposed budgets on sponsored projects are to be reviewed by PreAward Services prior to being provided to a sponsor.

If you are concerned about requesting the federally negotiated F&A cost rate from a private sector sponsor, contact PreAward Services for assistance and alternative budget strategies, such as “fixed-price” agreements. In a fixed-price transaction, a detailed line item budget is not submitted, rather a “bottom-line” total is provided to the sponsor that includes full cost recovery. Fixed-price budgets are itemized for internal purposes only, which provides the principal investigator with much greater budget flexibility. Many sponsors do not require line item budgets.

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## HOW ARE THE UNIVERSITY'S F&A RATES DETERMINED?

F&A cost rates are established by the federal government on a university-by-university basis using complex cost accounting analyses. KSU's "federal cognizant agency" with whom the rates are negotiated is the Department of Health and Human Services.

The rates are established by first isolating the various elements of F&A costs that can be allocated to three types of sponsored activities: (1) research, (2) instruction and training, and (3) other sponsored activities such as public service. The rates are then further elaborated according to whether the activity is to be conducted on-campus or off-campus. Off-campus rates are lower than on-campus rates because they do not include the elements of facilities costs, such as depreciation for buildings and equipment, operation and maintenance of the physical plant, library expenses, and student administration and services. Both on-campus and off-campus rates include general administration, departmental administration, and sponsored project administration. However, the federal government has capped the administrative cost component for all universities at 26%, regardless of an institution's actual costs. The result is that KSU and most other universities collect considerably less than the total F&A costs incurred in carrying out sponsored activities.

For more information about how the rates are calculated, refer to: <http://www.ksu.edu/policies/ppm/7010.html#.380>

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## WHAT ARE K-STATE'S FEDERALLY NEGOTIATED F&A COST RATES?

The following F&A cost rates, effective 07/01/03 – until further notice, are applicable to all sponsored project activity, including federal, non-federal, and private sector sponsors, unless otherwise approved as noted above:

Sponsored Activity	On Campus		Off Campus	
	Facilities	Administrative	Facilities	Administrative
Research	22.0%	26.0%	0%	26.0%
@ Branch Stations	11.0%	26.0%	0%	26.0%
Instruction	22.0%	26.0%	0%	26.0%
Other Spons Activ.	8.0%	26.0%	0%	26.0%
AGR (Agriculture)	15.5%	26.0%	0%	26.0%

The F&A costs are calculated by taking the appropriate percentage rate in the table times the MTDC base. If 50% or more of the project is to be performed on campus, the on-campus rate will apply to the entire project. Based on mandates of KSU's federal cognizant agency, grants and contracts will not be subject to more than one cost rate.

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## HOW ARE F&A COSTS DETERMINED ON SPONSORED PROJECTS?

**Standard Method:** The appropriate federally negotiated F&A cost rate is applied to a base budget figure known as modified total direct costs (MTDC). MTDC is derived from the total direct costs (TDC) budgeted less: (a) equipment; (b) capital expenditures; (c) patient care charges; (d) tuition remission; (e) rental costs of off-site facilities; (f) scholarships and fellowships; and (g) the portion of each subcontract in excess of \$25,000. Therefore, MTDC consists of all salaries and wages, fringe benefits, materials, supplies, services, travel, and up to \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract).

**USDA Exception:** The USDA typically limits the payment of F&A costs to the *lesser* of 22% of total federal funds (TFF) (depending upon the specific program) *or* the amount obtained using the federally negotiated rate. Except in instances where substantial subcontracts or equipment are involved, 22% of TFF normally yields the lesser amount. Two methods can be used to calculate F&A costs as 22% of TFF: (1) The TFF figure is calculated by dividing TDC by 78% [TFF = TDC ÷ 0.78]. F&A costs are then determined by multiplying TFF by 22% [F&A = TFF × 0.22]. (2) Alternatively, TDC can be multiplied by 0.0.282051 (but not a rounded version thereof) to get F&A costs in one step [F&A = TDC × 0.282051].

**Other Exceptions:** Other exceptions to the negotiated cost rate or uncertainties about which F&A cost rate to apply should be referred to PreAward Services *at least 5 working days in advance of any proposal submission deadline.*

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