System Government Costing

Overview of Facilities and Administrative Costs and Rates

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Purpose

The purpose of this overview is to provide background information, definitions, processes, and address questions and misunderstandings related to Facilities & Administrative (F&A) costs and rates to members of the University of Illinois System.

As pressure on federal and state budgets increase and efforts are made to adjust funding patterns, an informed and united academic community will be necessary to sustain reasonable funding levels which include reimbursement of F&A costs for research at universities.

What are F&A costs?

Facilities and Administrative (F&A), also known as indirect or overhead, costs are those expenses incurred for common or joint objectives of the University, and therefore cannot be identified easily and specifically with a particular sponsored project, an instructional activity, or other institutional activity. The F&A cost rate is the mechanism used to reimburse the University for the administrative and infrastructure support costs associated with sponsored research and other sponsored projects. It is essentially an overhead rate.

There are two broad categories of F&A costs included in an F&A cost rate:

- **Administrative expenses** – include costs related to various university operations such as general university administration, sponsored projects administration (grants and contracts), departmental administration, and student services administration. Such costs include personnel and non-personnel expenses related to dean’s offices, academic business offices, accounting, payroll, human resources, grants administration and reporting, chancellor’s office, provost’s office, information systems, etc.

- **Facility expenses** – include various facility costs such as building and equipment depreciation, interest on buildings, operations and maintenance, and library. Operations and maintenance costs include personnel and non-personnel expenses such as: utilities, custodial, maintenance, environmental health and safety, etc.

What is the history behind the facilities & administrative (F&A) cost concept and what are the related Federal regulations?

Research, including federally funded research, is a common practice at American universities today. During World War II, the Federal Government, initially through the office of Scientific Research and Development, began reimbursing universities for indirect costs. In order to support the war effort, the government invested heavily with universities for research related to the discovery and development of new technological tools. This successful collaboration between the federal government and universities illustrated the great potential of university led research.
As a result of the war, the Office of Naval Research (ONR) contracted with universities to carry out research projects and institutional indirect costs (now referred to as F&A costs) were addressed. The government and universities realized that universities needed to be reimbursed for F&A costs if they were to be successful and have the ability to continue conducting federal research. Both ONR and the Department of Health, Education and Welfare, now called the Department of Health & Human Services, acknowledged the need for reimbursement of F&A costs.

In 1958, the Bureau of the Budget issued Federal guidelines for determining F&A costs under Circular A-21 Cost Principles for Educational Institutions. The principles dealt with the subject of cost determination and were designed as a way for the Federal Government to bear its fair share of total costs, including indirect costs. The Circular was applicable to all grants, contracts, and other agreements entered into by universities with Federal agencies that sponsor research and development, training, and other work. The guidelines included formal criteria for cost determination, justifying costs, methods for distributing the costs between instruction, research and other activities, documentation requirements, and more. Also, certain costs were deemed unallowable.

Circular A-21 was just one of several guidelines and principles originally imposed in a variety of the federal Office of Management and Budget (OMB) circulars. In 2014, the OMB combined the regulations set in Circular A-21 with regulations from several other OMB circulars, including A-133 (Audits of States, Local Governments and Non-Profit Organizations), A-110 (Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations), and A-87 (Cost Principles for State, Local and Indian Tribal Governments). The new regulations, known as the OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements, were codified in the US Code of Federal Regulations (2 CFR part 200). The uniform requirements consolidated many overlapping regulations from the circulars, eliminated inconsistencies, and streamlined some of the regulatory requirements. These principles govern all sponsored programs issued after December 26, 2014 and are referred to as “Uniform Guidance” throughout this document.

What is the difference between direct and F&A (indirect) costs?

Uniform Guidance indicates that costs are classified as either direct or indirect (F&A). It further states “it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards.”

“Direct costs are defined as those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy”. Direct costs are easily assigned to and solely support a specific research project and are paid for by its direct grant funding. Direct costs often include salary support for faculty and research personnel such as lab assistants and students, laboratory supplies, travel for project support, equipment, and subawards to collaborating research institutions.
Indirect (F&A) costs are defined as those costs that are incurred for common or joint objectives, and therefore cannot be identified easily and specifically with a particular sponsored project, an instructional activity, or other institutional activity. In other words, F&A costs are those costs involving resources used mutually by different individuals and/or groups, making it difficult to determine precisely which users should pay what share. Facilities and Administrative costs cover a portion of the University of Illinois’ infrastructure and operational costs. The costs include expenses such as water, heat, light, telecommunications, hazardous waste disposal, building costs, as well as personnel and operating costs associated with compliance with human or animal subjects use, biosafety and chemical safety, and regulations to guard against financial conflicts of interest to name a few.

Why should my sponsored project pay F&A costs?

Federal agencies receive a total budget to carry out their various programs. Therefore, using agency funds to pay for F&A costs reduces available funds for paying direct costs on projects. This becomes a legitimate concern to faculty considering the long-term funding prospects for their projects.

As a result, it is not unusual for a faculty member to feel that, when they successfully compete for a grant, she or he is being taxed and contributing significant F&A cost dollars to the university. On the other hand, the University is simply being reimbursed for actual F&A or overhead costs incurred related to the sponsored project. There can be a tendency for people to underestimate the nature and cost of essential support services. Most of the time, the F&A cost recoveries do not fully cover the actual F&A costs related to such research or sponsored projects.

Some individuals believe if we could reduce the F&A costs a university can recover on a project, there would be more money for the sponsored research project. However, if the University were to lose F&A reimbursements or if such reimbursements were to be reduced drastically, it would be necessary to drastically reduce support for research programs including faculty, staff and research space.

In reality, the actual recovery of F&A costs is well below the actual incurred costs of supporting research and the University subsidizes these activities. This is due to various reasons: federal imposed 26% administrative cap on F&A, federal imposed 3.6% fixed allowance for reimbursement of faculty administrative costs, program limitations on F&A, F&A waivers, final F&A rate negotiations, etc. In addition, F&A is not recovered on “all” expenses, rather it is only recovered on “modified total direct costs” of the projects.

Why is it important that Universities be reimbursed for F&A costs?

While it is clear to many that a smaller project budget will reduce research efforts, the effects of no F&A recoveries or reductions in F&A reimbursement are not as widely understood. F&A costs are an essential part of the cost of conducting advanced, ground-breaking research. This research often requires specialized, state-of-the-art facilities and laboratories, high speed data processing and storage, human and animal research review committees, radiation and chemical safety, and other infrastructure and compliance activities. Further, conducting high-quality research carries real expenses, including essential costs for maintenance and development of state-of-the-art labs, utilities such as precision climate control,
security protections for handling dangerous chemicals, proper disposal of hazardous waste, and personnel to support required administrative and compliance work, among others.

It simply is not possible to carry out research without incurring such F&A costs, and the sponsors’ reimbursement for F&A ensures they pay their fair portion of these real research costs, costs that otherwise would not have been incurred.

Without F&A reimbursement:

- It would be necessary to drastically reduce our research programs, as we do not have funds to make up for unreimbursed F&A costs.
- Research would become unaffordable for our Universities.
- The University would lose financial support for compliance with federal regulations, financial management and reporting, facility management, available research space, etc. and would dramatically increase the regulatory burden on our faculty. This in turn would diminish the ability of faculty to conduct critical research, ultimately leading to less research carried out in Universities.
- Educational and training opportunities for postdoctoral research associates and graduate students would be drastically reduced.
- Research laboratories and other facilities would be closed due to lack of funds to ensure regulations related to environmental health and safety, human subjects, animal care, etc. could be met.
- The pace of progress would be slowed in many important areas, such as energy, biomedical research, materials, information technology, etc.
- The economic impact could also be significant; communities would lose jobs, and our country would fall behind as our foreign competitors forge ahead in research.

What are the changes to federal guidance over the years which have significantly affected F&A rate calculations?

At least two significant changes in federal guidance related to F&A rates and costs have been imposed on educational institutions over the years:

- Federal guidance imposed a 3.6% fixed allowance (cap) for reimbursement of faculty administrative costs. Although faculty may incur more than 3.6% of their time administering their sponsored projects and which is not directly chargeable to their projects, the University is limited to including 3.6% of the related expenses in their F&A rates for reimbursement purposes.

- Federal guidance imposed a 26% administrative cap on the entire administrative cost component of the F&A rate, which includes general administration, departmental administration, and sponsored projects (grants and contracts) administration. The overall administrative cost components for our Universities exceed the 26% administrative cap imposed by the federal government. As a result, our Universities are subsidizing sponsors, including the federal government, for the indirect cost portion which exceeds the administrative cap.
How are F&A rates calculated?

A formalized process developed by the Federal government is used to determine the University's F&A rates. This process is consistent with generally accepted accounting principles (GAAP) and presented in Uniform Guidance. In addition, under Uniform Guidance, the Federal government requires a "Modified Total Direct Cost (MTDC)" approach for computing the F&A cost rates and charging F&A costs to individual grants. MTDC is calculated as total direct costs minus the following: subaward expenditures in excess of $25,000; graduate assistant tuition remission; fellowships, scholarships, and traineeships; rentals and leases; equipment (including lease purchased and fabricated equipment) costing $5,000 or more; other capital expenditures; patient care charges; and participant support costs.

Although far from simple, the following process represents the basic logic for calculating F&A rates. F&A rate proposals are required to be prepared based on a University’s prior year of “actual” historical financial expenditures.

First, these expenditures are categorized as either “indirect” or “direct” expenditures and cannot be classified in both categories or duplicated.

Second, all F&A (indirect) costs – are assigned to one of nine cost pool groups related to the institution’s primary functions. Uniform Guidance defines these cost pool groups as follows:

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<tbody>
<tr>
<td>Building Depreciation</td>
<td>General Administration</td>
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<tr>
<td>Equipment Depreciation</td>
<td>Departmental Administration</td>
</tr>
<tr>
<td>Interest</td>
<td>Sponsored Projects Administration</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>Student Service Administration</td>
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<tr>
<td>Library</td>
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</tbody>
</table>
**Third, Direct Expenses** – direct expenses are assigned to one of the following direct base cost pools, also referred to as major functions. Examples of related functional activities are indicated under each direct base cost pool category.

<table>
<thead>
<tr>
<th>Instruction – Direct Base Cost Pool</th>
<th>Organized Research (OR) – Direct Base Cost Pool</th>
<th>Other Sponsored Activities (OSA) – Direct Base Cost Pool</th>
<th>Other Institutional Activities (OIA) – Direct Base Cost Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teaching and Training</td>
<td>Sponsored Research</td>
<td>Public/Community Service (sponsored only)</td>
<td>Auxiliary Enterprises</td>
</tr>
<tr>
<td>Departmental Research</td>
<td>University Research (separately budgeted and accounted for)</td>
<td>Extension Activities</td>
<td>Unallowable costs and activities for F&amp;A purposes</td>
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<td></td>
<td>Cost Sharing (related to OR)</td>
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**Next,** following guidelines provided in Uniform Guidance, procedures are performed to identify and eliminate unallowable expenses from F&A indirect cost pools.

**Then,** following guidelines provided in Uniform Guidance, a portion of indirect expenses from each F&A indirect cost pool is allocated to each of the Universities’ major functions (i.e. – organized research, instruction, other sponsored activities, and other institutional activities direct base cost pools). Totaling these allocated amounts derives the University’s total F&A indirect costs (numerator) allocable to each major function (denominator) of the University (refer to flowchart below).

**Finally,** the total allocated F&A indirect costs are divided by the respective direct costs at MTDC (denominator) to derive the F&A rates by function (refer to flowchart below).
What is included in F&A (Indirect) costs?

F&A rate proposals are required to be prepared based on a University’s prior year “actual” historical financial expenditures. Financial expenditures are downloaded from the University’s enterprise wide financial system and reconciled to the published financial statements. There are two broad categories for F&A costs, as implied by its name, Facilities expenses and Administrative expenses. Following Uniform Guidance, F&A expenses are assigned to one of nine cost pools as follows:
<table>
<thead>
<tr>
<th>Facilities</th>
<th>Administrative</th>
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</thead>
<tbody>
<tr>
<td>Building Depreciation</td>
<td>General Administration</td>
</tr>
<tr>
<td>Equipment Depreciation</td>
<td>Departmental Administration</td>
</tr>
<tr>
<td>Interest</td>
<td>Sponsored Projects Administration</td>
</tr>
<tr>
<td>Operations &amp; Maintenance</td>
<td>Student Service Administration</td>
</tr>
<tr>
<td>Library</td>
<td></td>
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</tbody>
</table>

**Facilities**

**Building Depreciation** – Depreciation related to capitalized buildings is included in this cost pool. Building costs are divided into multiple components and depreciated over different useful lives as follows: building shell (50 year useful life), building service systems (20 year useful life), and fixed equipment (15 year useful life). In addition, building remodeling costs are depreciated over a 25 year useful life. Building depreciation is calculated on the straight-line method and is compiled from the University’s fixed asset system. Building expenses paid from federal funding are not included in the building depreciation cost pool.

**Equipment Depreciation** – Depreciation related to capitalized equipment is included in this cost pool. Annual equipment depreciation is computed for each equipment asset using the straight-line method and the applicable useful life depending upon the type of asset. Equipment depreciation is compiled from the University’s fixed asset system. In some instances, depreciation is excluded from the cost pool for various reasons: equipment was federally funded, equipment is used in a service center, unusable condition, not in use, non-University ownership, associated with entity use, group asset, art collection, etc.

**Interest** – The Interest cost pool includes interest on debt issued by the University’s Certificates of Participation and interest on debt issued by the State of Illinois Capital Development Board through General Obligation and Build Illinois bonds related to certain buildings, equipment, and capital improvements.

**Operations & Maintenance** – The Operations and Maintenance cost pool includes physical plant operations and maintenance expenses. Such costs include the costs of utilities, repairs and maintenance, custodial services, grounds, waste management, environmental health and safety, transportation services, security, fire prevention, construction improvements, facilities management, etc.

An extensive "space study" by building, department, and room is performed by the University. As required under Uniform Guidance, the University's space study results are utilized to allocate the expenses compiled in the Building Depreciation, Equipment Depreciation, Interest, and Operations and Maintenance cost pools to the benefitting major functions of organized research, instruction, other sponsored activities, and other institutional activities.
Library – The Library cost pool includes operating costs incurred in running our various libraries. Such costs include library administration, book acquisitions, periodicals, preservation, circulation services, etc. This cost pool is allocated to the benefitting functions based on various groups utilizing library services.

Administrative

General Administration – The General Administration cost pool includes expenses for general executive and administrative offices, which provide services to all activities of the University. This category encompasses legal services, personnel, payroll, human resources, purchasing services, payables, financial management, management information systems, internal audits, and a variety of other central administrative functions. As required by Uniform Guidance, these costs are allocated to the benefitting functions based on modified total costs of the functions receiving the services.

Departmental Administration – The Departmental Administration cost pool includes expenses for program support and administration which occur at both the college/school and departmental levels. This cost pool includes an allowance (3.6% of MTDC) for the administrative effort of faculty and other professional personnel. In addition, the Departmental Administration cost pool includes a calculation of the portion of personnel costs for non-faculty and non-professional technical and administrative staff, and for supplies, travel, telephone services, etc. which are typically paid from general operating budgets. As required by Uniform Guidance, these costs are allocated to the benefitting functions based on modified total direct costs of the functions receiving the services.

Sponsored Projects Administration – The Sponsored Projects Administration cost pool recovers the cost of organizational units established primarily to support the sponsored projects. The primary elements in this pool are the costs associated with the offices of sponsored programs administration, government costing, and some costs in the offices of the Vice Chancellor for Research. As required by Uniform Guidance, these costs are allocated to the benefitting functions based on modified total costs of the functions receiving SPA services.

Student Services Administration – The Student Services Administration cost pool includes expenses for student counseling, health services, registrar office, bursar office, etc. As required under Uniform Guidance, all student services administration costs are allocated to the instruction function. Therefore, no student services administration costs are included in F&A rates for research.

What expenses are not allowable in F&A cost pools?

When preparing F&A proposals we review both academic and administrative departments’ expenses in an attempt to identify unallowable costs for proper treatment in the F&A study.

Per Uniform Guidance, Section 200.420 through 200.475 provides “principles to be applied in establishing the allowability of certain items involved in determining cost. These principles apply whether or not a particular item of cost is properly treated as direct cost or indirect (F&A) cost. Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or
related items of cost, and based on the principles described in §§200.402.” In addition, “criteria outlined in §200.403 - factors affecting allowability of costs must be applied in determining allowability.”

Under Uniform Guidance, these "unallowable" expenses cannot be included in F&A indirect cost pools, which are further allocated to the research, instruction, or OSA major functions. In addition, the University must certify to the federal government that these costs have indeed been excluded.

Types of unallowable costs for F&A purposes include, but are not limited to, the following:

<table>
<thead>
<tr>
<th>Alcohol beverages</th>
<th>Goods and services for personal use of employees</th>
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</thead>
<tbody>
<tr>
<td>Alumni activities</td>
<td>Housing and personal living expenses of an institution's officers</td>
</tr>
<tr>
<td>Dependent tuition remission</td>
<td>Institution-furnished automobiles for personal use</td>
</tr>
<tr>
<td>Donations and contributions made by an institution</td>
<td>Insurance against defects</td>
</tr>
<tr>
<td>Entertainment</td>
<td>Legal costs of criminal and civil proceedings, appeals and patent information</td>
</tr>
<tr>
<td>Executive and legislative lobbying</td>
<td>Memberships in any civic, community or social organization or country club</td>
</tr>
<tr>
<td>Fines and penalties</td>
<td>Selling or marketing of goods or services</td>
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<tr>
<td>Fund-raising activities</td>
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</tbody>
</table>

**What is the applicable oversight and administrative process for negotiating the final F&A cost rate?**

F&A reimbursement for grants and contracts is governed by a process that is highly regulated and audited by the federal government to ensure that sponsors only reimburses the portion of these costs that are directly allocable to the performance of sponsored research.

In Accordance with Uniform Guidance, a university’s cognizant agency is either the Office of Naval Research (ONR) or the Department of Health and Human Services (DHHS).

ONR administers indirect cost rates for non-profits (universities) for which the largest dollar value of direct federal awards is from the Department of Defense (DoD). Since the UIUC is considered the main campus of the University of Illinois System and UIUC receives more federal funding from DoD than DHHS funding, ONR has been designated as the cognizant agency for F&A for our University of Illinois System.

The ONR Indirect Cost Branch is responsible for administering (negotiation and approval) indirect cost rates and disclosure statements for colleges and universities and nonprofit entities that are assigned to DoD rate cognizance, in accordance with Uniform Guidance. ONR administers F&A rates for approximately 44 educational institutions.
Once F&A rate proposals are compiled and appropriately documented by our Universities, they are required to be submitted to ONR. ONR then contracts with the Defense Contract Audit Agency (DCAA) to perform an audit of the F&A proposal submission(s). The DCAA audit generally takes anywhere from six to twelve months for completion, after which DCAA submits their audit report to ONR. ONR then reviews the audit report and uses it as a negotiation tool to negotiate final F&A rates and the related rate period (generally three to four years) with the Universities. Once final negotiated rates and rate periods are determined, ONR issues a formal pre-determined F&A rate negotiation agreement between ONR and the Universities, which outlines the maximum rates the Universities are permitted to charge sponsored projects during the fiscal years specified.

**What does the off-campus F&A rate represent?**

A separate rate is established for off-campus research for which some of the underlying costs such as building rental are charged directly to the grant and not borne as an F&A cost by the University. The off-campus rate represents only the “administrative” portion of the F&A rate negotiated with the federal government. For our UIUC and UIC Universities, the administrative portions of the F&A rates are capped at 26% in accordance with Uniform Guidance.

**Why should my sponsored project pay the same rate as another sponsored project?**

It has been determined by the federal government as part of Uniform Guidance that there should be a single F&A rate for each institution’s on-campus research rate using averaged (blended) rates. This averaging approach is a cost-effective, less burdensome, understandable, and straightforward method. The alternative to averaged rates would be cost prohibitive, require an extremely complex accounting system, and require extraordinary amounts of effort to derive a different F&A cost rate for each of our thousands of grants.

There are two forms of F&A proposals that can be submitted to the federal government. Long-form and short-form F&A proposals. The simplified method, or short-form, is submitted to the federal government if the university’s total direct costs does not exceed $10 million in a fiscal year.

For educational institutions (i.e. - UIC and UIUC) required to file long-form F&A proposals, it has been a standard with the federal government that there should be a single on-campus F&A cost rate for each of the institution’s organized research, instruction, and other sponsored activities functions. These rates are then assessed to sponsored projects based on the related function of the work.

For educational institutions (i.e. - UIS) required to file short-form F&A proposals, one single on-campus F&A cost rate is required and is applicable to all of the educational institution’s functions. In other words, a single on-campus F&A cost rate is compiled and is assessed to all sponsored projects regardless of function (i.e. organized research, instruction, and other sponsored activities).

Furthermore, no one is paying more F&A costs than can be justified. The actual recovery of F&A costs is well below the actual incurred costs of supporting research. This is due to various reasons such as: federal
imposed 26% administrative cap on F&A, 3.6% fixed allowance for reimbursement of faculty administrative costs, program limitations on F&A, F&A waivers, final F&A rate negotiations, etc. In addition, F&A is not recovered on “all” expenses, rather it is only recovered on “modified total direct costs” of the projects.

**What is my grant paying for when F&A rates are assessed?**

While central administrative expenses may be the component of F&A costs that first comes to mind, a wide variety of institutional resources are used in support of sponsored projects including research. A given project may require some of the resources on the list more than others, but most projects draw a portion of them. In addition, a proposal seeking funds for a small project may require as much administrative work to process as a grant with a million dollar budget.

Examples of allowable activities and costs include, but are not limited to, the following for calculating the University’s overall F&A cost rates.

<table>
<thead>
<tr>
<th>Accounting Services</th>
<th>Graduate Student Services</th>
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</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>Human Resources Office</td>
</tr>
<tr>
<td>Advertising Costs (for personnel)</td>
<td>Institutional Animal Care and Use Committee</td>
</tr>
<tr>
<td>Affirmative Action Monitoring</td>
<td>Institutional Biosafety Committee</td>
</tr>
<tr>
<td>Bond Interest</td>
<td>Institutional Review Board</td>
</tr>
<tr>
<td>Building Depreciation</td>
<td>Internal Audit</td>
</tr>
<tr>
<td>Central Administration</td>
<td>Legal Counsel</td>
</tr>
<tr>
<td>College Administration</td>
<td>Library Services</td>
</tr>
<tr>
<td>Communications Costs</td>
<td>Maintenance/Operations</td>
</tr>
<tr>
<td>Computer Facilities and Services</td>
<td>Payroll Office</td>
</tr>
<tr>
<td>Custodial Services</td>
<td>Purchasing Office</td>
</tr>
<tr>
<td>Departmental Administration</td>
<td>Radiation Safety</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>Risk Management</td>
</tr>
<tr>
<td>Environmental Health and Safety</td>
<td>Security (University Police)</td>
</tr>
<tr>
<td>Equipment Depreciation</td>
<td>Sponsored Program Accounting</td>
</tr>
<tr>
<td>Government Cost Compliance</td>
<td>Utilities (electric, steam, water, cooling, etc.)</td>
</tr>
<tr>
<td>Graduate Student Admissions</td>
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</tbody>
</table>

**What is the background and process related to State F&A Rates?**

The State of Illinois passed the Grant Accountability and Transparency Act (GATA) to increase accountability and transparency in the use of grant funds and reduce administrative burdens on both State agencies and grantees by adopting federal guidance and regulations applicable to such grant funds. Under this Act, the Illinois Governor’s Office of Management and Budget, through the Grant Accountability and Transparency Unit, maintains the responsibility of working with the State grant-making agencies and Illinois grantees in their adoption of GATA and have provided the Universities with State F&A rate setting guidance.
Due to GATA, the State of Illinois developed an Indirect Cost Rate Proposal process and a software system called Crowe Activity Review System (CARS) developed by Crowe Horwath. Each year, University Government Costing completes the required reporting in the CARS application and reports our three Universities federally negotiated Facilities & Administrative rates. The reporting is required to be submitted 30 days after receipt of the auditor’s report(s) or 9 months after fiscal year end, whichever comes first.

In addition, under GATA, our State F&A rates are required to be calculated and adjusted on an annual basis. The required methodology for calculating State F&A Rates starts with the institution’s federally negotiated rates and reduces the federal rates for proportionate state funding received by each University. Each year, University Government Costing calculates the three Universities State F&A rates, publishes related rate schedules, and coordinates campus rate communications. This rate process is completed at the same time CARS reporting is performed.

**Why are my State of Illinois F&A Rates different than my Federal F&A Rates?**

Since the State of Illinois has adopted the Uniform Guidance via the Grant Accountability and Transparency Act (GATA) for all State awards, they honor the federally negotiated indirect cost rate agreements (NICRAs). However, the State has requested a reduction in the federal rates to account for State support (State appropriations, payments on behalf of, etc.) that our institutions receive in support of instruction, research and other sponsored activities among other things. The Universities’ State F&A Rates use a simple formula driven methodology based on each University’s published annual financial statements. This formula is utilized to identify the University’s State funding percent. This percent is then used to reduce the University’s current federally negotiated F&A rates in order to derive State F&A rates for assessing the University’s State projects.

**Why do F&A cost rates vary between research institutions?**

The differences in F&A cost rates have often been cause for scrutiny and discussion. The average F&A rate among all research universities is around 53%; private universities have an average rate about 7 percentage points higher than that figure.

Administrative costs are the most difficult to quantify and, consequently, they are the most criticized and questioned F&A costs. They are not, however, a major contributing factor to differences in F&A rates between universities. The Federal government has capped the amount of administrative cost recovery at 26%, even though the regulatory burden on universities continues to increase.

So, why do F&A cost rates vary among major research institutions? There is no single answer to this question. Instead, the main differences result from the following factors:

*One primary factor to consider is the Building Depreciation cost pool.*
• An institution that has a large number of research facilities, with some built recently at higher cost, will have higher depreciation expenses than an institution that has a smaller and/or older physical plant.

• The size and intensity of use of a university’s research facilities and buildings is a cause for variability of F&A costs. For example, if two universities have the same direct cost research base and one has twice as many net square feet of space assigned to research, the facilities rate component for the university with twice the net square footage will be much higher.

• A university’s ability to secure funds to construct, upgrade, and maintain research facilities is another factor. Universities that are able to spend money to renovate existing research facilities and construct new research facilities experience a higher level of costs than universities with limited funding for such expenses.

*Competition is another factor to consider.* In some states, F&A cost rates have deliberately been kept low on the theory that aspiring research institutions would be more competitive for federal grants. Such decisions can result from a deliberate plan by the state and university to subsidize their research programs with nonfederal resources.

*Treatment of costs as direct versus indirect may be a factor.* Some universities internal institutional policies may elect to recover a given cost directly rather than as an F&A cost or vice versa. For example, at some universities equipment maintenance costs may generally be considered as F&A costs, while at others, they may be a direct charge to the grant. As a result, a given university may show higher direct costs and lower F&A costs than comparable costs at another university, even though the actual cost of the particular function is exactly the same at the two institutions.

*The location of a university has a significant effect on the costs of facility operations.* The universities that have the best combination of climactic conditions, utility rates, and/or labor costs will generally have a lower rate for facility operations. Electricity, heating, and air conditioning costs vary widely across the country, as do labor and construction costs. Some Universities maintain their own power plants which produce utilities versus purchasing utilities on the open market. Maintaining your own power plant may involve high labor costs depending on the geographic area and establishment of union contracts for groups of employees. In addition, operations and maintenance employees may be put into groups of laborers which only perform specialized services, such as, carpenters, movers, painters, mill workers, electricians, roofers, etc. As a result, it may take two to three employees to perform one task.

*The “mix” of research among universities contributes to the variances in F&A rates.* For example, the cost per square foot of constructing or renovating biomedical research space is more costly than the cost per square foot of space for mathematicians.
What is a Disclosure Statement (DS-2)?

The Uniform Guidance requires universities who receive more than $50 million in Federal awards to disclose their cost accounting practices by submission of a Disclosure Statement (DS-2). Both UIUC and UIC are among those who must comply with this regulation. The DS-2 is a description of the institution’s cost accounting practices. It is prepared by the institution and filed with its cognizant federal agency for indirect costs. It is intended to establish a clear understanding of practices, under generally accepted accounting principles, that the institution follows. The DS-2 is subject to the approval of cognizant agency for indirect costs.

The institution is responsible for maintaining an accurate and updated DS-2, and complying with the disclosed cost accounting practices. An institution must file amendments to the DS-2 to the cognizant agency for indirect costs six months in advance of a disclosed practice being changed to comply with a new or modified standard, or when a practice is changed for other reasons. An institution may proceed with implementing the change only if it has not been notified by the Federal cognizant agency for indirect costs that either a longer period will be needed for review or there are concerns with the potential change within the six months period.