

# **Federal Rules for Sponsored Programs**

## **Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR 200**

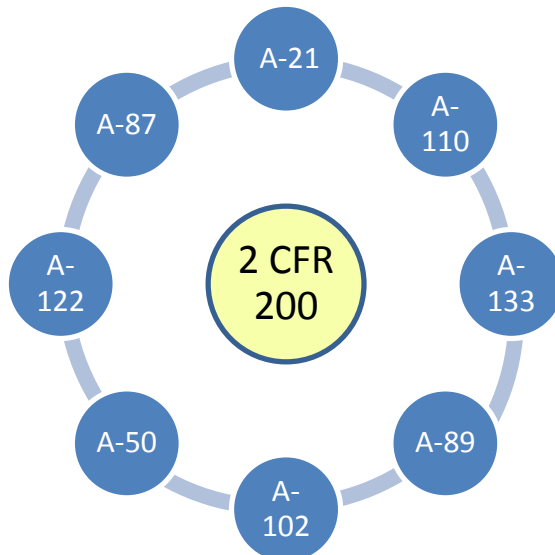
### **Uniform Guidance (UG) The Basics**

Presented by Dan Evon  
Director of Contract and Grant Administration



# Uniform Guidance 2 CFR Part 200 Effective 12/26/2014

- Grants Reform

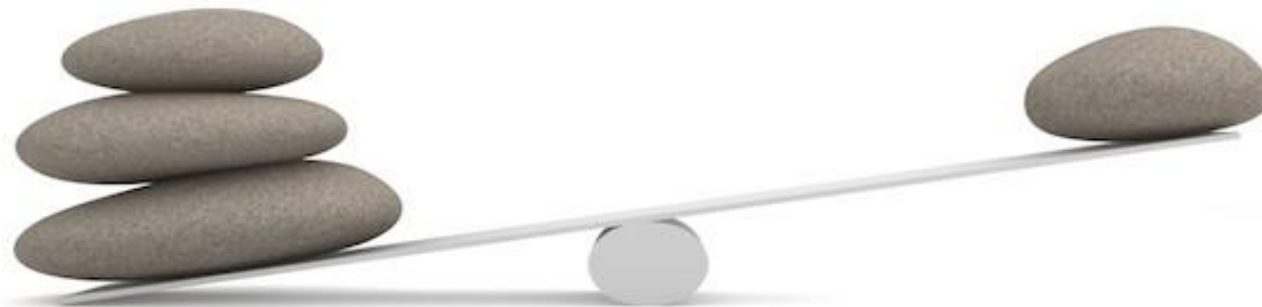


- A-21 Cost Principles for IHE (MSU)
- A-110 Financial Mgt Standards for IHE
- A-133 Single Audit Requirements
- A-89 Catalog of Federal Domestic Assistance (CFDA's) now FAIN
- A-102 Grants with State & Local Gov.
- A-50 Audit Follow-up & Resolution
- A-122 Cost Principles for Non-Profits
- A-87 Cost Principles for State, Local ...

# Uniform Guidance 2 CFR 200

Reduce fraud, waste  
and abuse

Streamline Process



- New UG has more prior approval requirements than the old Circular A-21!
  - See 200.407 Prior written approvals



## Uniform Guidance 2 CFR 200

- The UG provides the framework for each federal agency to issue in their own implementing regulations or policies
  - NIH Grants Policy Statement
  - NSF Proposal and Award Policy & Procedure Guide
  - USDE EDGAR
- OMB Technical Corrections and comment period
- Research Terms and Conditions
  - Defines which prior approval requirements are waived
  - NCE, budget deviations, etc.

## UG Outline – By The Numbers

Subpart A 200.xx - Acronyms and Definitions

Subpart B 200.1xx - General Provisions

Subpart C 200.2xx - Pre-award - Federal Awards

Subpart D 200.3xx - Post Award - Recipients

Subpart E 200.4xx - Cost Principles

Subpart F 200.5xx - Audit Requirements

**Appendices** I Funding Opportunities, II Contract Provisions, III Indirect Costs (F&A)



## Subpart A - Definitions

### 200.24 Cooperative agreement

- Means a legal instrument ... not to acquire property or services for the governments benefit
- Is distinguished from a grant .. Substantial involvement of the federal agency

### 200.33 Equipment

- *MTDC Tangible personal property having a useful life of more than one year and per-unit acquisition costs ... of \$5,000*



## Subpart A - Definitions

### 200.68 Modified Total Direct Costs (MTDC)

- *MTDC* means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards ~~and subcontracts~~ up to the first \$25,000 of each subaward ~~or subcontract~~ (regardless of the period of performance of the subawards ~~and subcontracts~~ under the award).
- *MTDC* **excludes** equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, **participant support costs** and the portion of each subaward ~~and subcontract~~ in excess of \$25,000.

## Subpart A - Definitions

### 200.75 Participant Support Costs

- Costs for stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees **(but not employees)** in connection with conferences, or training projects.

### 200.84 Questioned cost

- Questioned by an auditor because
  - Violation, or possible violation of a statute, regulation or term and condition
  - Not supported by adequate documentation
  - Costs appear to be unreasonable and do not reflect the actions of a prudent person



## Subpart B - General Provisions

### 200.100 Purpose

- Federal awarding agencies must not impose additional or inconsistent requirements, except as provided in § § 200.102 Exceptions and 200.210 Information contained in a Federal award, or unless specifically required by Federal statute, regulation, or Executive Order.

### 200.113 Mandatory disclosures

- Must disclose, in a timely manner, in writing to the Federal awarding agency or pass-through entity all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award.

## Subpart C - Pre-Award Provisions

200.201 Use of grant agreements including fixed amount awards), cooperative agreement, and contracts

- (b) ...pass-through entities as permitted to use fixed amount awards
- Cannot be used if include cost sharing
- Limited to Simplified Acquisition Threshold \$150k

200.203 Notices of funding opportunities

- (b) The Federal awarding agency must general make all funding opportunities available for at least 60 days.

## Subpart D - Post-Award Provisions

### 200.320 Procurement

- (a)(3) ...pass-through entities must make payment within 30 calendar days after receipt of billing

### 200.306 Cost sharing or matching

- (a) ...It cannot be used as a factor during the merit review, but may be considered if ... specified in notice of funding
- (b)(4) [costs] are allowable [if] under Subsection E – Cost Principles
- (e) Volunteer services – rates similar to work plus fringes
- (f) third-party – paid rates, fringes and indirect costs

## Subpart D - Post-Award Provisions

### 200.308 Revision of budget and program

- (c)(1) Change in scope
- (2) Change in key person
- (3) disengagement more than 3 months or 25 % reduction of principal investigator (PI)
- (4) Costs that require prior approval
- (5) Transfers amounts budgeted for participant support costs
- (6) Subawarding
- (7) Changes to the amount approved for cost sharing

# Subpart D - Post-Award Provisions

## 200.313 Equipment

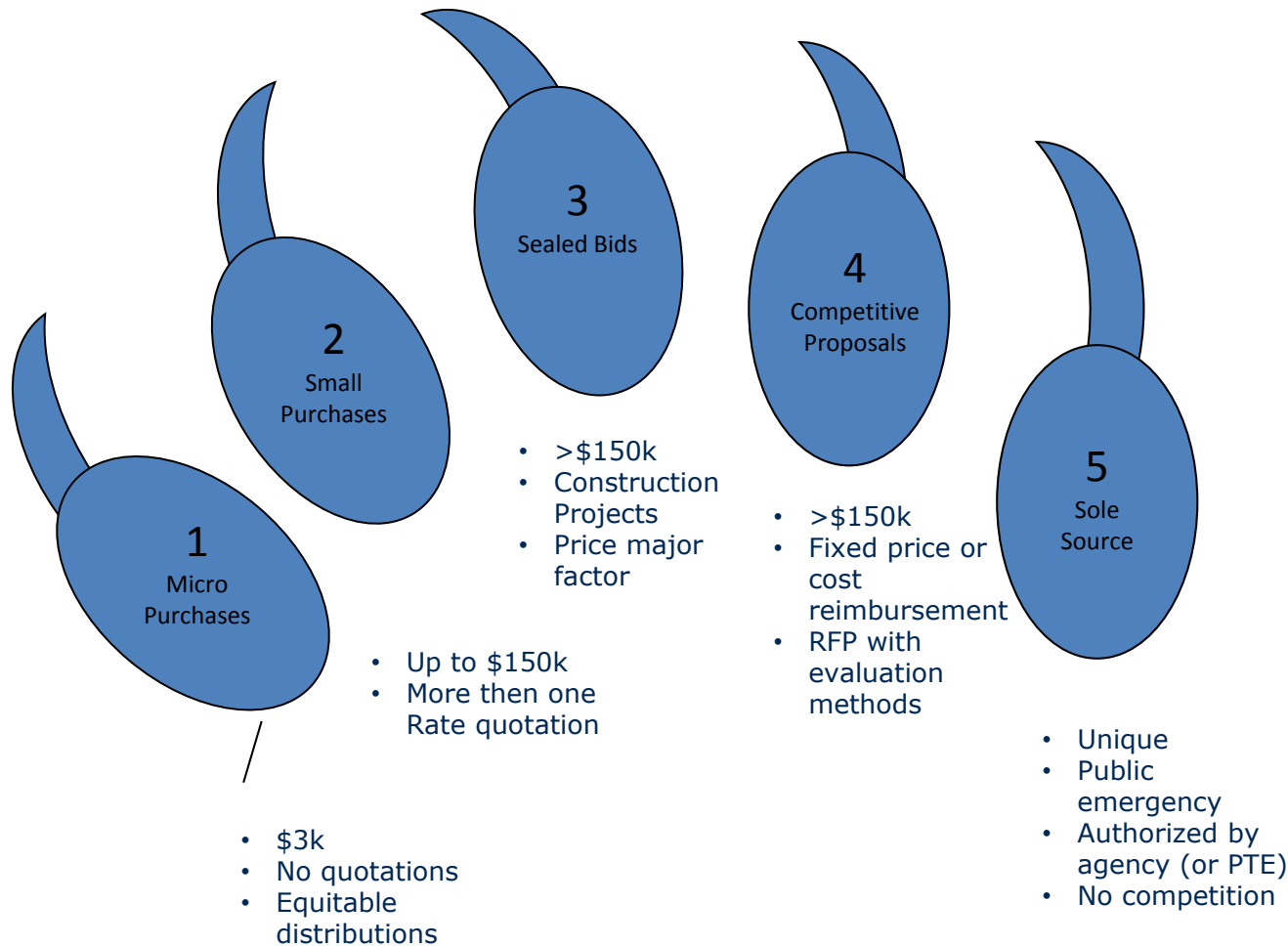
- (a) Title ... vest upon acquisition with non-federal entity (c) Use ...When no longer needed for the original program, it may be used for other activities supported by same federal agency in the following order of priority:
  - Same federal agency
  - Other federal agencies
  - As trade-in
- (e) Disposition
  - If exempt – no further obligation
  - If not exempt – request disposition instructions from agency 120 days
  - If > \$5k return to agency in proportion to fed % of funding

# Subpart D - Post-Award Provisions

## 200.313 Equipment

- (a) Title ... vest upon acquisition with non-federal entity (c) Use ...When no longer needed for the original program, it may be used for other activities supported by same federal agency in the following order of priority:
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- (e) Disposition
  - If exempt – no further obligation
  - If not exempt – request disposition instructions from agency 120 days
  - If > \$5k return to agency in proportion to fed % of funding

# Procurement 200.320 (grace period until July, 2016)





# UG – Subpart D - Post-Award Provisions

## 200.333 Record Retention

- Financial and supporting documents ... three years from the date of submission of the final expenditure report
- (a) if any litigation, claim or audit ... must be retained until all litigation or audit finding have been resolved

## 200.343 Closeout

- (a) The non-Federal entity must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance and other reports

# UG – Subpart E - Cost Principles!

## 200.403 Allowable

- Necessary, conform to the limitations of the award, consistent with policies, consistent treatment as direct or indirect, be adequately documentation

## 200.404 Reasonable

- Does not exceed that which a prudent person in the same circumstances, at the time of the purchase, cost is generally recognized as appropriate, arm's length transaction

## 200.405 Allocable

- Costs are assigned based on the relative benefits received, allocated based on proportional benefit

# UG – Subpart E - Cost Principles!

## 200.413 Direct Cost

- Costs that can be directly assigned to a project relatively easily with a high degree of accuracy
  - Extraordinary utility costs
- Clerical & administrative normally F&A but if
  - Those cost are integral to the project
  - Specifically identified with the project
  - Specifically identified in the budget
  - Not also recovered as indirect

## 200.414 Indirect (Facilities & Administrative) Costs

- Not easily identified to a particular project

## UG – Subpart E - Cost Principles

Selected Items of Costs 420-475

200.419 Cost Accounting Disclosure Statement

200.430 Compensation – personal services

200.431 Compensation – Fringe Benefits

- Change coming for terminal leave – in SI fringe

200.440 Exchange Rates – Fixed only when results in a change to scope

200.453 Materials and supplies – including computing devices

- Essential and allocable, but not sole dedicated to

# UG – Subpart E - Cost Principles

## Selected Items of Costs 420-475

### 200.458 Pre-award costs:

- Incurred prior to the effective date
- Allowable to the extent that they would have been OK
- With agency written approval
- See Research Terms and Conditions

### 200.460 Proposal Costs

- Allowable as indirect costs – not as a direct cost

### 200.461 Publication and Printing Costs

- Can be allowable after end date

## Subpart F – Audit Requirements 200.501-521

- Increase of the Single Audit Threshold from \$500,000 (current threshold) to \$750,000.
- Seven of the current compliance requirements for the A-133 audit have been eliminated. These include: the Davis Bacon Act, Equipment and Real Property Management, Level of Effort and Earmarking, Period of Availability, Procurement, Suspension and Debarment, Program Income and Relocation Assistance.
- OMB to develop specific audit procedures with the specific focus on helping to reduce fraud, waste, abuse and improper payments.

## Subpart F – Audit Requirements 200.501-521

- More detail will be required for audit findings to ensure Auditee is able to adequately prepare a Corrective Action Plan and take corrective action, and Federal agencies and pass-through entities are able to arrive at management decisions.
- *The questioned cost threshold for reporting increased from \$10,000 to \$25,000.*
- Adds requirement for summary schedule of prior audit findings to include why finding recurred.

More information to come with issuance of next A-133 Compliance Supplement.



## Subpart F – Audit Requirements 200.501-521

### Schedule of Federal Awards (SEFA) for A-133 Report must:

- List Federal programs by Federal Agency
- For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.
- Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when CFDA information is not available.
- Include the total amount provided to subrecipients from each Federal program.
- Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the non-Federal entity elected to use the 10% de minimis cost rate.



**Uniform Guidance  
2 CFR Part 200  
Effective 12/26/2014**

## What has changed and what does it mean?

- The basic rules regarding **Allowability, Allocability** and **Reasonable** haven't changed
- There is an enhanced expectation for good internal controls
  - Mentioned 75 times in the UG
  - Cost transfers
- New rules are more flexible for computers and clerical costs
  - no significant change for MSU
- There is greater expectations for the monitoring of our sub recipients



# Uniform Guidance Continued

## What has changed

- There will be/is an automatic approval to grant sub-recipients a de minimis F&A rate of 10% MTDC
- More flexibility to comply with salary documentation
  - Effort Reporting – could it become something different
- Limits on the amount of fixed-price sub-awards (\$150k cap)
- NSF's participant support exclusion from F&A has been adopted into the definition of MTDC – applies to all agencies
- Cost sharing is not expected for research proposals and may not be used as a factor in reviewing proposals
  - Adopted the National Science Board philosophy – science trumps cost sharing
- The budget restriction on transfers from direct to F&A and vice versa has been removed



# Uniform Guidance Continued

## What has changed

- The procurement section has been delayed for 20 months
  - required source documentation for items > \$3,000
- Old requirement to close an account in 90 days being strictly enforced by NSF and NIH
  - Research Terms and Conditions might move to 120 days
- Conferences – need to focus beyond the recipient
- Some VISA costs are now specifically allowable
- Terminal leave costs (vacation/leave payout)
  - move to the fringe rate?
- Revise and update policies!
- Timing – each federal agency (other than NSF) needs to issue regulations as it is effective now





## Uniform Guidance - Summary Document

Admin &  
Clerical  
Salaries

[2 CFR 200.413](#)  
[2 CFR 200.430](#)

**Administrative and clerical salaries may be allowable as direct costs.**

***How is the UG different than Circulars A-21/A-110/A-133?*** The previous circulars allowed administrative/clerical costs for “major projects”. In comparison, the UG recognizes the necessity of administrative/clerical work in project management and provides more flexibility, as administrative/clerical salaries may be direct charged when all the following criteria are met:

- Administrative or clerical services are *integral* to a project or activity;
- Individuals involved can be *specifically identified* with the project or activity;
- Such costs are explicitly *included in the budget or have the prior written approval* of the Federal awarding agency; and
- The costs are *not also recovered as indirect costs*.



## Uniform Guidance - Summary Document

Admin &  
Clerical  
Salaries

[2 CFR 200.413](#)  
[2 CFR 200.430](#)

**Administrative and clerical salaries may be allowable as direct costs.**

***How does this affect your project?*** Although routine administrative and clerical salaries should typically be treated as indirect costs (i.e. paid by the General Fund), administrative and clerical salaries that meet the above criteria may now be included in proposal budgets as direct costs. Questions regarding special cases or justifications should be directed to departmental or college administrators and/or the Office of Sponsored Programs.

Administrative/clerical salaries must be in the award budget in order to be charged directly to RC accounts for new federal awards received after Dec. 26, 2014. Current awards, as well as new federal awards received prior to Dec. 26, 2014, will not be impacted until a modification is received. After that point, agency approval of administrative/clerical salaries must be obtained.



## Uniform Guidance - Summary Document

<p>Computers (under \$5,000 per unit)</p> <p><a href="#">2 CFR 200.20</a> <a href="#">2 CFR 200.453</a></p>	<p><b>Computing devices may be allowable as direct costs when essential and allocable to the federal project.</b></p> <p><b><i>How is the UG different than Circulars A-21/A-110/A-133?</i></b></p> <p>Computing devices are only mentioned once in A-21 and as an indirect cost, whereas the UG mentions their allowability as direct costs when they are essential and allocable, even if they are not solely dedicated, to the federal project. Some auditors interpreted the old language as a tight restriction on when computing devices can be charged to federal projects.</p>
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## Uniform Guidance - Summary Document

<p>Computers (under \$5,000 per unit)</p> <p><a href="#">2 CFR 200.20</a> <a href="#">2 CFR 200.453</a></p>	<p><b>Computing devices may be allowable as direct costs when essential and allocable to the federal project.</b></p> <p><b><i>How does this affect your project?</i></b> The UG recognizes the advancement of technology and benefit of computing devices to federal projects, providing grantees more flexibility in the direct charging of computers. Although computing devices do not need to be used exclusively for project purposes, the device cost must be allocated based on anticipated use and provide a direct benefit to the project, both of which should be documented with the purchase. This clarification does not result in a significant change to MSU's Federal Cost Policy.</p>
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## Uniform Guidance - Summary Document

Internal Controls	<p><b>Internal Controls are an essential part of spending federal funds.</b></p> <p><b><i>How is the UG different than Circulars A-21/A-110/A-133?</i></b> The Uniform Guidance stresses internal controls much more than previous circulars. In fact, “internal controls” is mentioned 75 times throughout the UG, compared to only 1 time in Circular A-21. It is clear that the federal government expects recipients of federal funding, such as MSU, to regularly review their project expenditures to ensure compliance.</p>
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## Uniform Guidance - Summary Document

Internal Controls	<p><b>Internal Controls are an essential part of spending federal funds.</b></p> <p><b><i>How does this affect your project?</i></b> Internal controls can be demonstrated by ensuring that expenses are charged to the proper account, accounts are not used to temporarily hold non-project expenses, and minimizing cost transfers. Therefore, it is critical that PI's and FO's review spending regularly to make sure expenses are being charged appropriately, support documentation is attached, and business purposes are included. Please utilize advance/hardship accounts when appropriate.</p>
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## Uniform Guidance - Summary Document

Participant  
Support Costs

[2 CFR 200.75](#)  
[2 CFR](#)  
[200.456](#)

**Participant support costs are allowable with agency approval and should be excluded from indirect costs (F&A).**

***How is the UG different than A-21/A-110/A-133?*** Previously, participant support costs (PSC) were charged indirect costs, with the exception of those incurred on NSF awards. The UG specifies that PSC expenses on all federal projects are excluded from indirect costs (under the modified total direct cost base calculation) and require agency approval.

***How does this affect your project?*** Departments should exclude PSC costs from MTDC when calculating F&A Costs in proposal budgets. CGA will setup PSC portions of projects in separate accounts in order to comply with the tighter restrictions on charges to the PSC budget category.



## Uniform Guidance - Summary Document

<p>Budget Flexibility: Direct v. Indirect (F&amp;A)</p>	<p><b>Prior agency approval is no longer required when rebudgeting between direct and indirect cost categories.</b></p> <p><b><i>How is the UG different than Circulars A-21/A-110/A-133?</i></b> Budget changes that reallocated funds between direct and indirect costs required agency approval in the previous circulars; the UG has eliminated this requirement.</p> <p><b><i>How does this affect your project?</i></b> Minor budget fluctuations for items that impact F&amp;A like the tuition portion of grad tuition, or equipment, will no longer require agency approval.</p>
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## Uniform Guidance - Summary Document

<p>Subawards Indirect costs (F&amp;A)</p> <p><a href="#">2 CFR 200.414</a></p>	<p><b>Subcontractors without a negotiated F&amp;A rate have the option of charging a 10% F&amp;A rate.</b></p> <p><b><i>How is the UG different than Circulars A-21/A-110/A-133?</i></b></p> <p>Previously, subcontractors without a negotiated F&amp;A rate were expected to charge reasonable F&amp;A-type expenses as direct costs, or forego them. The UG now allows subcontractors to charge a de minimis rate of 10% of modified total direct costs (MTDC). If this rate is chosen, it must be used for all federal agreements.</p> <p><b><i>How does this affect your project?</i></b> When preparing proposal budgets, departments will need to be aware of which method their subawardee is using and plan accordingly. Subawardees without established F&amp;A rates may want to include the 10% as soon as possible even though awards will not be increased to cover the additional costs.</p>
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## Uniform Guidance - Summary Document

Subawards:  
Fixed Price

**Fixed price subawards are an option up to \$150,000.**

[2 CFR 200.332](#)

***How is the UG different than Circulars A-21/A-110/A-133?*** Fixed price subawards are a type of contracting instrument that structures payments based on deliverables instead of actual costs/best efforts incurred. The previous circulars did not set a threshold for when fixed prices subawards could be issued by pass-through entities, while the Uniform Guidance sets a maximum subaward amount of \$150,000 for fixed price subawards and requires agency approval.



## Uniform Guidance - Summary Document

Subawards:  
Fixed Price

**Fixed price subawards are an option up to \$150,000.**

[2 CFR 200.332](#)

***How does this affect your project?*** It is important to know the threshold and appropriateness of particular contracting instruments as you work with partners on proposing the type of subaward that will be issued and communicating what deliverables, documentation and financial reporting will be necessary. Questions should be directed to the Office of Sponsored Programs or Contract and Grant Administration.





## Uniform Guidance - Summary Document

<p>Terminal Leave Payout</p> <p>200.431</p> <p>(b)(3)</p>	<p><b>The Uniform Guidance language may result in terminal leave being included in the other component of MSU's specific identification fringe rate.</b></p> <p><b><i>How is the UG different than Circulars A-21/A-110/A-133?</i></b></p> <p>Terminal leave (the payout of banked sick/vacation time upon retirement or termination) was not specifically mentioned in the previous circulars. The final UG language will allow this as a direct cost, but encourages these costs to be included in the fringe rate.</p>
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## Uniform Guidance - Summary Document

<p>Terminal Leave Payout</p>	<p><b>The Uniform Guidance language may result in terminal leave being included in the other component of MSU’s specific identification fringe rate.</b></p>
<p>200.431 (b)(3)</p>	<p><b><i>How does this affect your project?</i></b> Currently, MSU charges banked vacation time to the accounts for which faculty/staff are paid at the time of retirement or termination. The university will consider adjusting the fringe benefit rate to include this cost, which is expected to increase the “other” category of the rate by approximately .2%, i.e. the Other SI fringe component would go from 1.5% to 1.7%. If this system is adopted, all terminal leave would be paid out of a central account and charged to RC accounts as part of the fringe rate each pay period. An announcement regarding this change is anticipated within the next six months.</p>



## Uniform Guidance Continued

**All of our Policies will need to be reviewed and updated**

- Federal Cost Policy
- Cost Sharing Policy
- Travel Policies
- Purchasing



# Questions?

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# Facilities & Administrative Cost/Indirect Costs/Overhead

*Dan Evon, Director  
Contract & Grant Administration*



# Agenda

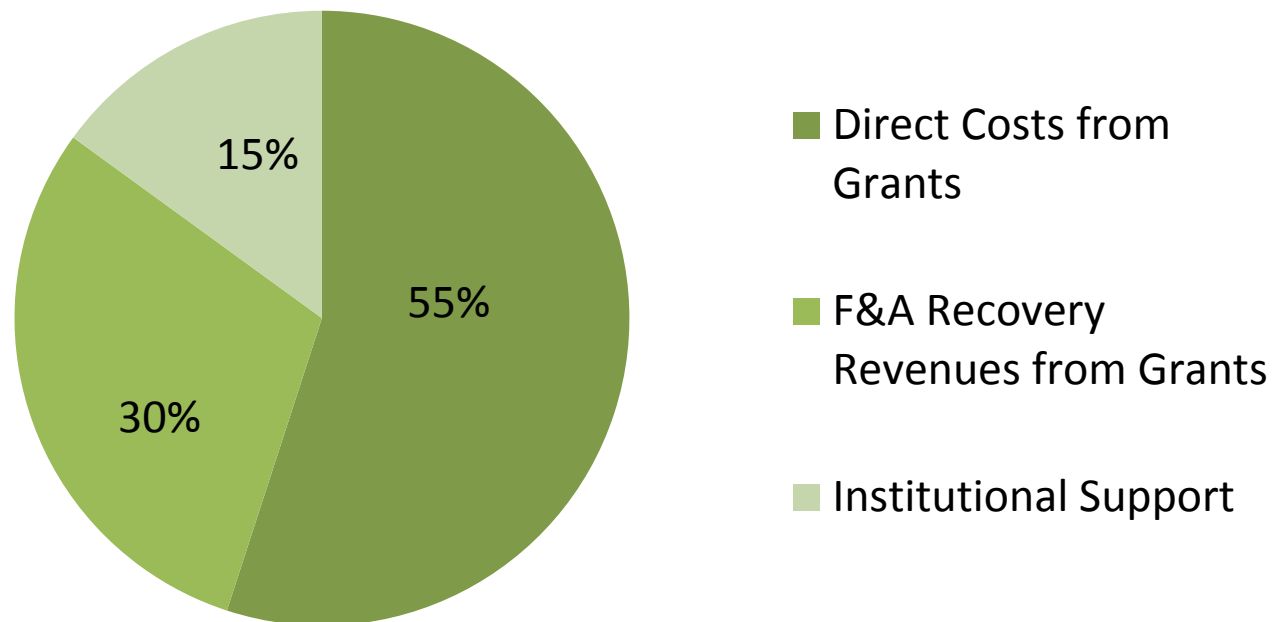
- Introduction to Facilities & Administrative (F&A) Costs
- Review of Federal Regulations and Agencies
- Calculation of the F&A Rate
- Rate Negotiation
- F&A Rate Recovery
- Questions

## Introduction to F&A Costs

- Resources required to undertake a sponsored project include associated direct and indirect (or F&A) costs
  - Direct costs – costs that can be specifically identified to a sponsored project
  - F&A or Indirect costs – costs incurred for common or joint objectives and cannot be readily identified with a specific sponsored project – **these are real costs!**
- Institutional Support costs – Investigator Salaries, startup costs, etc.

# Total Cost of Research

## Organized Research Costs





## Introduction to F&A Costs

- Two main types of F&A costs
  - **Facilities**
    - **Operations and Maintenance of Plant** – heating, lighting, custodial services, landscape services, campus security, routine building maintenance (~\$164 million)
    - **Building and Equipment Costs** – depreciation of buildings and equipment, interest costs associated with new buildings/equipment (~\$106 million)
    - **Library** – portion of the cost of books and other library materials (~\$27 million)

# Introduction to F&A Costs

- Two main types of F&A costs
  - **Administrative**
    - **General and Administrative Expenses** – expenses of executive administration, MSU business office, other central admin offices: President, Provost, Personnel, General Counsel, Controller, etc (~\$107 million)
    - **Departmental Administration** – administrative and support expenses of departments, colleges and divisions that support common or joint activities (~\$95 million)
      - Office supplies, Office computers, Administrative salaries, Local phone and postage

# Introduction to F&A Costs

- Two main types of F&A costs
  - **Administrative – Continued**
    - **Sponsored Projects Administration** – expenses of units that administer sponsored projects: Office of Sponsored Programs (pre-award), Contract and Grants Administration (post-award), Vice President for Research and Graduate studies; provides services for multi-colleges, e.g. proposal review, fiscal management, etc (~\$11 million)

## Review of Federal Regulations

- OMB Circular A-21 – has been replaced by 2 CFR Part 200 the “Uniform Guidance”
  - Developed to appropriately allocate indirect costs to sponsored projects
  - Establishes accounting principles upon which the indirect cost rate must be calculated
  - Costs must be allocable, allowable, reasonable, consistently treated, and necessary
- Division of Cost Allocation (DCA) Best Practices Manual
  - Developed to assist DCA staff in reviewing and analyzing College and University F&A rate proposals

# Review of Federal Agencies for F&A Rates

- Cognizant Agency for F&A Determinations
  - Identified by OMB based on federal expenditures
  - MSU: Department of Health and Human Services (DHHS)
    - 3-4 year rates
    - Negotiated rates usually 5 points less than proposed
  - Office of Naval Research (ONR) for those with Department of Defense awards
    - 1 year rates
    - Negotiated rates usually 1-2 points less than proposed
  - While HHS is our cognizant agency for F&A, the National Science Foundation (NSF) is our federal audit cognizant agency

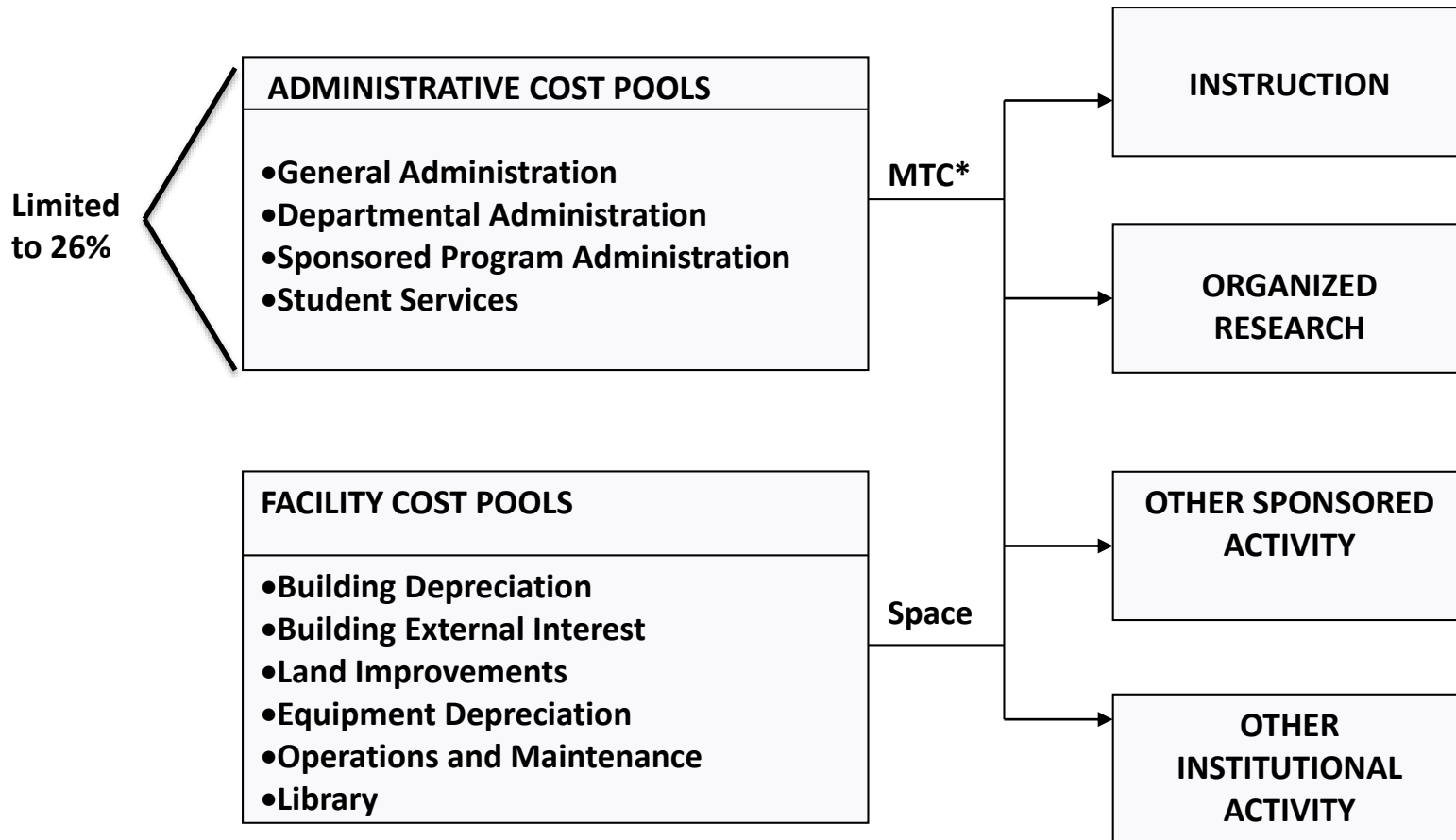
## Calculation of the F&A Rate

- Begin with the MSU Financial Report
- Separate all costs into direct (by function) or indirect (by cost pool)
- Allocate indirect costs back to major functions
- Divide the F&A costs by direct costs = the “rate”
- Apply the federal limits (Admin limited to 26%)
- Send to DHHS in Dallas, TX
  - Next proposal due 12/31/2014 (6 months after fiscal year)
  - Goal to establish rates prior to 6/30/2015

## Calculation of the F&A Rate

- Major Functions of the University
  - **Instruction** – teaching and training activities of an institution; departmental research
  - **Organized Research** – all research and development activities of an institution that are separately budgeted and accounted for
  - **Other Sponsored Activities** – programs and projects which involve the performance of work other than instruction and organized research
  - **Other Institutional Activities** – all other activities of the institution including athletics, residential housing, etc.

# Calculation of the F&A Rate



\*Modified Total Costs



# Calculation of the F&A Rate

MICHIGAN STATE UNIVERSITY  
FYE JUNE 30, 2010

## Stepdown Schedule

Cost Group	Total Cost	BLDG	EQUIP	BLDGINT	OM	GA	DA	SPA	SSA	LIB	Total
<b>INDIRECT POOLS</b>											
01 BLDG & IMPR DEPR	59,978,030	-59,978,030									
02 EQUIP DEPRECIATION	16,210,528		-16,210,528								
03 BLDG INTEREST	29,635,070			-29,635,070							
04 OPERATIONS & MAINT	164,219,319	6,131,438	585,755	5,565,625	-183,637,016	7,134,879					
05 GENERAL ADMIN	107,119,428	1,502,905	1,404,906	608,267	7,703,748	-118,339,254					
06 DEPT ADMINISTRATION	95,334,530	2,262,167	762,910	1,065,196	10,157,475	10,121,927	-119,704,205				
07 SPON PROJECTS ADMIN	11,260,018	144,180	54,483	9,556	1,301,149	1,195,508		-13,964,894			
08 STUDENT SVCS ADMIN	30,386,808	298,847	26,803	84,884	1,483,056	3,226,251			-35,506,649		
09 LIBRARIES	27,428,031	706,078	368,699	471,774	4,295,209	2,912,110				-36,181,901	
<b>DIRECT BASES</b>											
10 INSTRUCTION	454,800,929	20,204,075	4,613,971	6,813,811	46,763,604	48,287,468	83,462,729	1,611,056	35,506,649	32,804,720	734,869,012
11 ORGANIZED RESEARCH	201,440,229	7,791,254	5,521,047	5,207,832	39,299,809	21,387,465	28,245,420	9,068,408		2,750,584	320,712,048
12 OTHER SPONSORED ACTI	84,007,325	1,510,075	481,090	258,327	4,776,999	8,919,290	7,996,047	3,285,429		626,598	111,861,180
13 OTHER INST ACT	347,962,140	19,427,017	2,390,867	9,549,799	67,855,993	15,154,357					462,340,173
<b>TOTAL</b>	<b>1,629,782,385</b>	<b>6</b>	<b>3</b>	<b>1</b>	<b>26</b>	<b>1</b>	<b>-9</b>	<b>-1</b>		<b>1</b>	<b>1,629,782,413</b>

# Calculation of the F&A Rate

Direct Cost Group: 11 — ORGANIZED RESEARCH

Indirect Cost Group	Base Indicator	Base	Allocated Amount	Rate	Capped Rate
<b>Administrative</b>					
05 — GENERAL ADMIN	All	201,440,229	21,387,465	10.62	
06 — DEPT ADMINISTRATION	All	201,440,229	28,245,420	14.02	
07 — SPON PROJECTS ADMIN	Sponsor	175,798,804	9,068,408	5.16	
<b>Subtotal For Administrative</b>			58,701,293	29.80	26.00
<b>Facilities</b>					
01 — BLDG & IMPR DEPR	On	183,614,632	7,791,254	4.24	
02 — EQUIP DEPRECIATION	On	183,614,632	5,521,047	3.01	
03 — BLDG INTEREST	On	183,614,632	5,207,832	2.84	
04 — OPERATIONS & MAINT	On	183,614,632	39,299,809	21.40	
09 — LIBRARIES	On	183,614,632	2,750,584	1.50	
<b>Subtotal For Facilities</b>			60,570,526	32.99	32.99
<b>On Campus Rate:</b>				62.79	58.99
<b>Off Campus Rate:</b>				29.80	26.00



## Rate Negotiation Process

- MSU calculates the F&A rate every 3-4 years and submitted to the federal government (DHHS)
- DHHS auditors will review the calculation of the rate and may schedule an on-site visit for further review
- After the review is completed, the federal auditors will negotiate with MSU to determine a final rate
  - Length of agreement
  - Negotiation strategy – escalating vs. fixed rate
  - Federal assumptions regarding institution
  - Points of flex – difference between calculated rate and desired

# Rate Negotiation

- MSU's most recent rates were negotiated on June 24, 2011
- Calculated 63%, Capped at 58%, Negotiated 53.5%

**F&A rate components for the on-campus research rate**

General Administration	7.5%
Department Administration	14.9%
Sponsored Projects Administration	3.6%
<hr/>	
Total Administrative Cost Pools	26.0%
<hr/>	
Building Depreciation	3.6%
Equipment Depreciation	2.2%
Interest	2.4%
Operations & Maintenance	18.0%
Library	1.3%
<hr/>	
Total Facilities Cost Pools	27.5%
<hr/>	
Total F&A Rate	53.5%

Project Type	7/1/2011-6/30/2015
Research	53.5%
Other Sponsored Projects	36%
Off-Campus	26%

# How does MSU's rate compare to the Big 10?

- For FY 13, the average F&A rate for organized research in the Big 10 was 53.3%

<b>Big Ten Indirect Cost Rates</b>			
	<u>Audit Agency</u>	<u>Institution</u>	<u>2012-13</u>
1	ONR	Illinois	58.5%
2	HHS	Purdue	54.0%
3	HHS	Michigan	55.5%
4	HHS	Indiana	56.0%
5	<b>HHS</b>	<b>Michigan State</b>	<b>53.5%</b>
6	HHS	Northwestern	54.5%
7	HHS	Ohio State	52.5%
8	HHS	Minnesota	52.0%
9	HHS	Iowa	51.0%
10	HHS	Wisconsin	50.5%
11	ONR	Penn State	49.0%
		<b>Big Ten Average</b>	<b>53.4%</b>
		Stanford	57.0%
		MIT	56.0%
		Harvard - Public Heal	61.5%

# Is it true that our 53.5% rate means ½ the project costs are for F&A?

- No! Actual is about 1/3
  - Project with \$100,00 in Direct Costs and F&A of 53.5%:

\$100,000	65% Direct Costs*
<u>\$53,500</u>	<u>35% F&amp;A Costs**</u>
\$153,500	100% Total Project Costs

$$*\$100,000/\$153,500 = 65\%$$

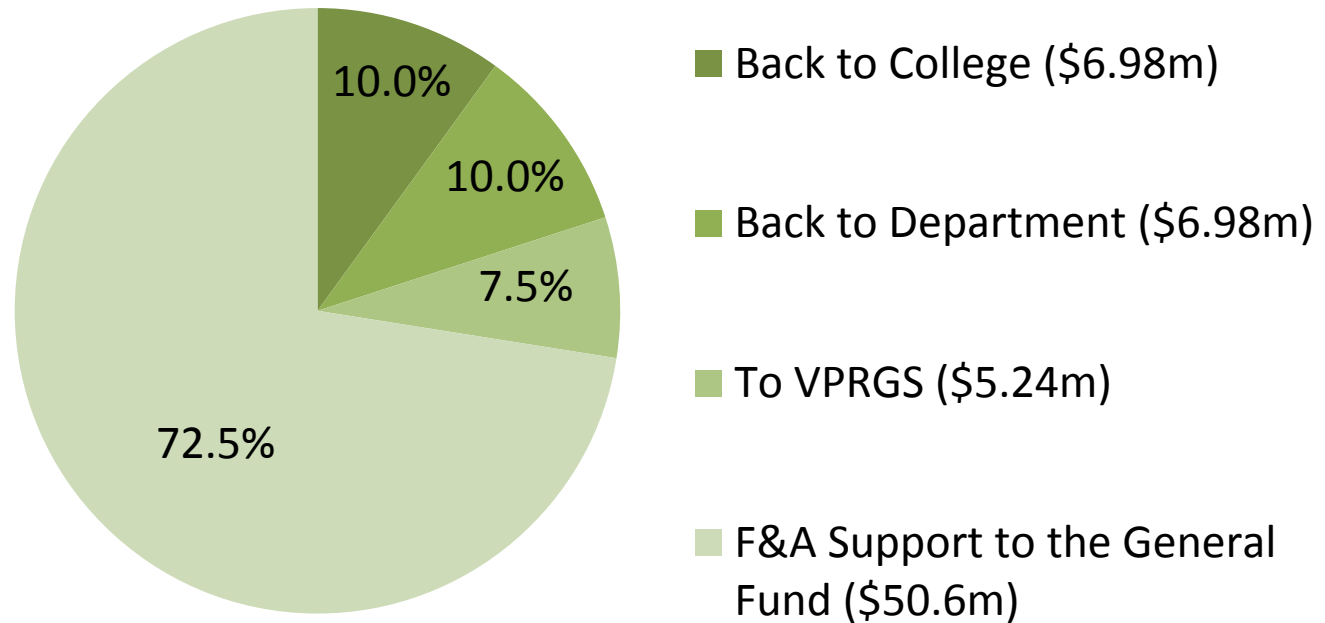
$$**\$53,500/\$153,500 = 35\%$$

## F&A Rate Recovery

- How are F&A expenses recorded on the project?
  - Automatically recorded nightly to object code 6487
  - The rate is applied to Modified Total Direct Costs (MTDC) which is all direct expenses except equipment, graduate tuition, and the amount of sub-awards > \$25k
  - Some projects use Total Direct Costs (TDC)
- During FY 12-13, F&A cost recovery generated \$69.8 million in revenue for MSU
- What happens when sponsors don't pay full F&A?
  - More institutional support devoted to research

# F&A Rate Recovery

## F&A Revenue - \$69.8m

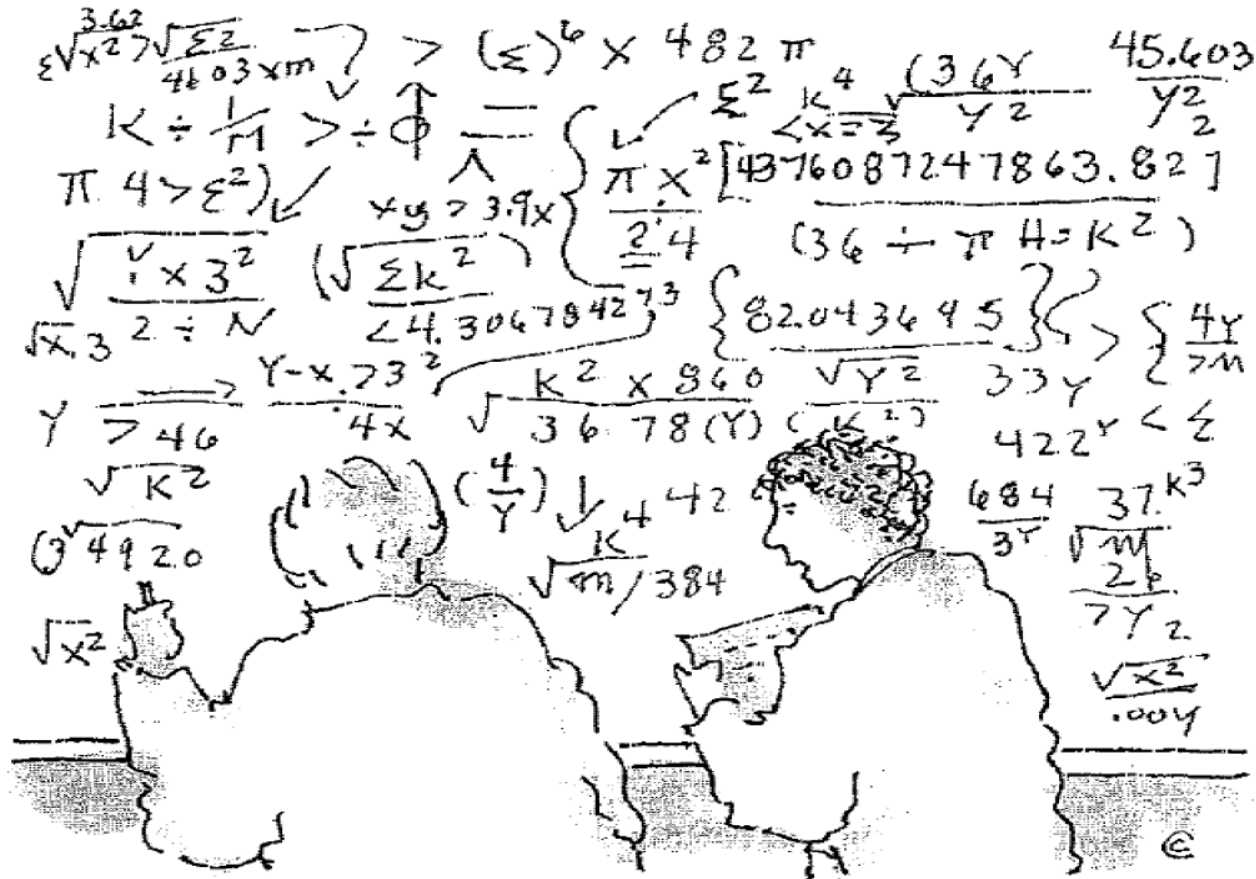




## F&A Rate Recovery

- Most sponsored projects pay the negotiated rate
  - Exceptions:
    - USDA – ~28.20% TDC
    - USDE – ~8.0% TDC
    - State of Michigan – 20% MTDC
    - Non-profits – 0% or rate per organization's written policy
    - Testing (including clinical trials) – 26% TDC
- Indirect Cost Waiver/Reduction Process
  - Written justification from PI submitted to departmental chair, then college research associate dean
  - If approved, request is submitted to VPRGS for consideration

# Questions?



THE CHRONICLE OF HIGHER EDUCATION

CAROL E. CABLE

*"This is the easy part. The challenge will be figuring out the indirect cost for the grant proposal"*

# Questions?

Dan Evon

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Evonne Pedawi

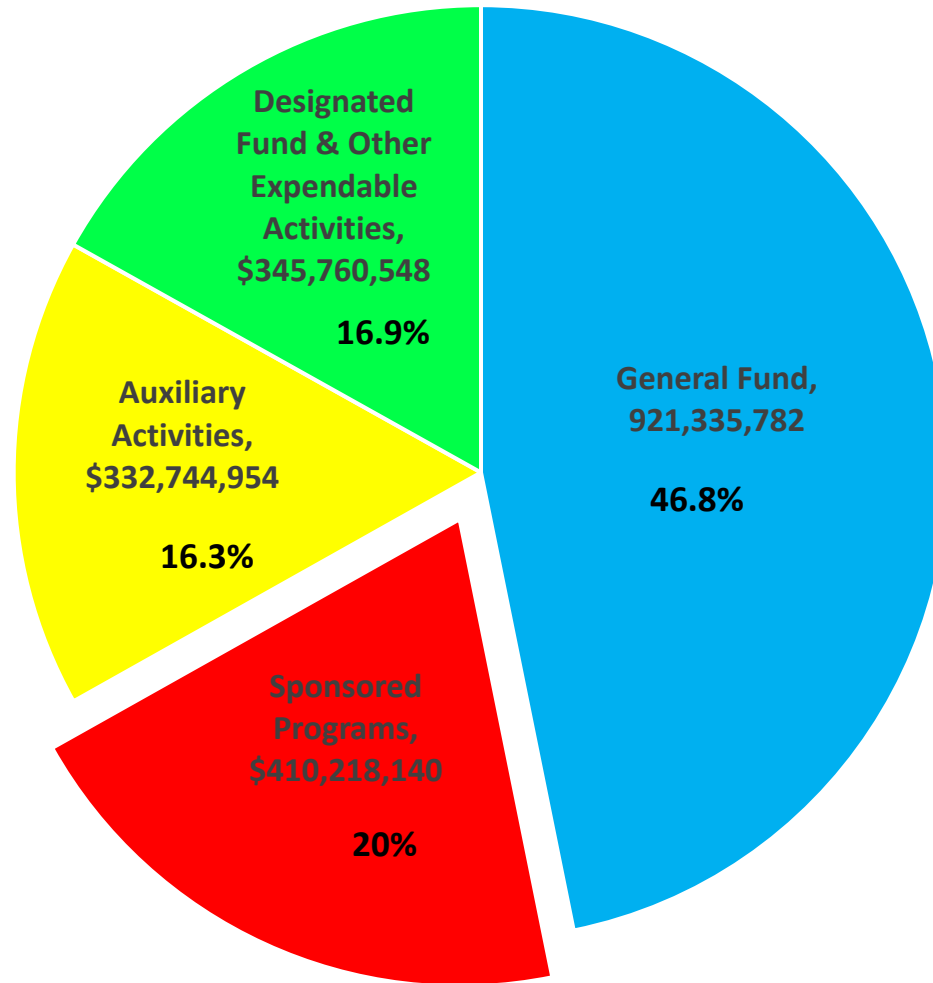
[pedawi@cga.msu.edu](mailto:pedawi@cga.msu.edu)

# Audits and Record Keeping



**Dan Evon**  
**Director, Contract and Grant Administration**

# Sponsored Programs are 20% of MSU



**2013-14 Expenditures  
Per MSU's Financial  
Report**

# Audit and Compliance Activities: Maintain Financial Integrity

- Adherences with MSU Policies and Procedures
- Protect reputation of MSU
- Sustain a relationship of trust between research sponsors and MSU
- Avoid repercussions of noncompliance
- Protect future research investment

# Audit Activity - Increasing

	<u>FY 11-12</u>	<u>FY 12-13</u>	<u>FY 13-14</u>
	<u>Annual</u>	<u>Annual</u>	<u>Annual</u>
Internal Audit	32	32	30
External Audits – Plante Moran			
MSU Annual Audit	1	1	1
Federal A-133	1	1	1
NCAA	1	1	1
WKAR (Radio and TV)	2	2	2
External Audits – Sponsored Programs			
Federal Agency Audits (NSF, DOJ, USDA, USAID, etc.)	5	25	34
State Audits (MEDC, MDE)	6	12	8
Foundation Audits (Kellogg, Gates)	0	4	3
<b>Subtotal Sponsored Programs</b>	<b><u>11</u></b>	<b><u>41</u></b>	<b><u>45</u></b>
<b>Total Audits</b>	<b>48</b>	<b>78</b>	<b>80</b>

# Audit Trends

	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
<b>Total Sponsored Programs Expenditures</b>	\$295M	\$374M	\$357M	\$369M	\$313M	\$320M
<b>CGA Hours dedicated to audits</b>	350	430	500	580	1,130	2,090
<b>Amount Audited</b>	\$67M	\$55M	\$37M	\$27M	\$52M	\$235M+
<b>Paybacks from audits</b>	0	*	0	0	0	\$54k

\$54k on an NSF STTR for equipment purchased when the company and our PI were told no by NSF

\* MSU discovered IRB protocol error resulted in \$108k refund to Yale in 2010: not the result of external audit



# Audit Repercussions

- Columbia University, 2014, \$9.02M Settlement
- University of South Florida, 2014, \$6.4M *Questioned Costs*
- Emory University, 2013, \$1.5M Settlement
- Northwestern University 2013, \$2.9M Settlement
- U California, Santa Barbara, 2013, \$6.3M *Questioned Costs* - \$43k Settlement
- Florida State, 2012, \$3M *Questioned Costs* – not yet settled
- Weil Medical College, 2006, \$2.6M Settlement
- Yale University, 2008, \$7.6M Settlement
- Clark Atlanta University, 2006, \$5M Settlement
- University of Connecticut, 2006, \$2.5M Settlement
- Cornell University, 2005, \$4.3M Settlement
- Mayo Foundation, 2005, \$6.5M Settlement
- Florida International University, 2005, \$11.5M Settlement
- Johns Hopkins University, 2004, \$2.6M Settlement

# MSU Approach to Maintain Compliance

## 1. Clear Policies and Procedures

- Continuing and training provides guidance to faculty and staff
- Updates based on continuously changing rules and audit findings

## 2. Internal Controls and Separation of Duties

- Encourages good behavior
- Auditors provide an independent review of MSU internal controls

## 3. CGA Pre-review of certain higher risk transactions

- Post audit review using federal audit techniques

## 4. Monitoring Audits of Other Universities

- Audits test the effectiveness of current practices
- Audits identify areas that require additional oversight



# What Do Auditors Look For?

## 1. Internal Controls

- Effectiveness and efficiency of operations
  - Number of cost transfers
- Reliability of financial reporting
  - Good financial system - KFS
- Compliance with applicable laws and regulations
- Transactions are timely and properly recorded and accounted for

## 2. Expenditure Assessment – Auditor's Role

- Is it a violation or possible violation of law, regulation, agreement terms?
- Is the cost supported by adequate documentation?
- Does the cost appear reasonable/does it reflect the actions that a prudent person would take?

# Types of Audits

1. Financial
2. Performance
3. Compliance
4. Special Investigation
5. Whistleblower/Hotline
6. Agency Initiated
7. Sub-Recipient Monitoring

Timing – Annual, Periodic, Episodic



# Sponsored Program Audit Process

1. MSU receives Notification of Audit – CGA is lead office
  - If received by PI or Department – send to CGA
2. Pre-Audit Planning with Faculty and Department Administrators
3. Audit Entrance Conference with Auditors
4. Perform Audit: Review Documentation, Interview Staff, etc.
5. Discussion of Possible Findings during Audit Exit Conference
6. Draft Audit Report and Draft Management Response Issued
7. Final Audit Report and Management Response Issued
8. Resolution of any Disputes
9. Final Settlement or Appeal

# Example: National Science Foundation “Data Analytics” Audit

- June 2013 MSU received notice as part of a national initiative
- Comprehensive Audit scope - all financial data for all NSF projects for three years: 2010, 2011 and 2012
  - Spans two different MSU financial systems
- Detailed records ranging from equipment purchases, personnel charges, detailed P-card transactions, vendor files, etc.
- Electronic records provided for approximated \$235M on 622 separate projects and more than 232,000 transactions
  - The Quali Financial System’s ability to directly access documentation was crucial to providing timely responses

## NSF Data Analytics Audit (continued)

- Two site visits by NSF auditors
  - Three auditors for one week in January 2014
  - Three auditors for one week in April 2014
  - ~ 600 individual transactions selected for detailed review
  - June 2014 MSU received an additional request to support ~ 1,800 salary charges
- Approximately 1,000 hours of CGA staff time to provide information to auditors
- Largest audit in my 37 years at MSU

## NSF Data Analytics Audit (continued)

- Finding: Approximately \$913k in questioned costs
  - Costs in excess of the NSF two-month salary policy, or what was listed in the approved budget
  - Only issue identified in audit report
- MSU followed established NSF practice related to post-award budget flexibility
  - The NSF Policy Office issues FAQs annually, which clearly allows post-award rebudgeting flexibility
- OIG is taking a particularly rigid view, which ignores the NSF Policy Office's FAQs because they are not policy
- Dispute between NSF OIG and NSF Policy Office



## NSF Data Analytics Audit (continued)

- MSU requested a hold on the release of the audit report until NSF management provides clarification
- November 20, 2014 – NSF released revised policies to clarify practice
  - Very timely response by NSF Management
- December 2014 – NSF OIG decides to keep the finding in MSU's audit report
  - Conference call with OIG indicated 25-30 additional audits with periods prior to policy clarification will be performed, i.e. expect to repeat the same findings at other universities

## NSF Data Analytics Audit – Next Steps

- Continue to work with national organizations to better explain the reputational damage that can be caused by audit reports with large amounts of questioned costs, even when they result in very small, if any, repayment
  - Association of American Universities (AAU), Association of Public and Land-grant Universities (APLU), and the Council On Governmental Relations (COGR)
- Receive Final NSF Audit Report
- Proceed to NSF Audit Resolution if needed



## NSF Data Analytics Audit – Lessons Learned

- Policies and practices proven to be effective
- Items selected for audit not limited to large \$ values
- KFS storage of electronic documentation critical for timely audit response
- CGA access to PIs and department administrators necessary to building defensible justifications
- Continue to develop and present campus educational opportunities
  - SPROUT, Research Administrators Network (RAN), Electronic Research Administration (ERA), Uniform Guidance, Effort Reporting, Brown Bag Lunch, etc.

## Audits – Balance Efficiency vs Compliance

- Pre-Audit of higher-risk transactions
  - International travel, retroactive salary appointment transactions, general error corrections, reimbursement vouchers, POs > \$5,000
- Post-Audit of transactions
  - Service billings, P-cards, randomly selected items
- Cannot overestimate the importance of financial documentation to support project activities
- Technical success can still result in negative audits in the absence of proper documentation

## Summary

- 20% of MSU revenue comes from sponsored research and other sponsored activity awards
- MSU has effective policies and practices and these are being updated
  - New Federal Regulations - Uniform Guidance 12/26/14
- Internal and External audits provide a confirmation of our policies and practices
- Important to balance efficiency vs compliance burden
- MSU has had two paybacks (\$162k) in the past 10 years covering ~25,000 research awards with approximately \$3.1 billion in research expenditures

# Questions?

## Contact Information

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Contract and Grant Administration

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[pedawi@msu.edu](mailto:pedawi@msu.edu)

# Resource Administration Resources



## *Activity Log*

Laura Johnston  
SPA Administrator & Training Manager

# Resource Administration Resources



## *Reports*

Erin Schlicher

SPA Administrator and Financial & Data Analyst



# Resource Administration Resources



*Kuali Coeus*

Marc Melton & Renee Dolan

# Talking Points: KC Implementation at MSU

ERA Core 2

January 27, 2015

# Kuali Coeus Functionality

- Integrated, web-based, scalable and configurable RA system
- System-to-system submission to grants.gov and research.gov
- Modules available to administer research proposals over various aspects of their entire life-cycle; from development to closeout
- Integration between modules and ability to administer proposal across business system boundaries

# Kuali Coeus Advantages

- Open source software is readily configurable and customizable
- Developed by higher education institutions for higher education research administration, drawing on best practices in proposal and award management
- Developed under auspices of the Kuali Foundation, a non-profit organization providing administrative software for Carnegie Class institutions
- MSU has adopted and implemented Kuali Financial system, which shares a common middleware layer, Kuali Rice, with Kuali Coeus

# Kuali Coeus Efficiencies

- Electronic validation of data
- On-line collaboration and audit trails
- Application-generated action item listings and email notifications
- Use of template and intelligent web-based forms
- Sharing of action lists, workflow, identity management, and roles across Kuali applications

# Thank You for Attending!

## Save-the-Dates:

Core 3: February 10th, 2015

Core 4: February 17th, 2015

Core 5: March 10th, 2015

*Materials posted on the SPROUT site:*

<https://sprout.vprgs.msu.edu/training/core-series/>