NCURA Lifecycle
Pre-Award / Budgeting Day 3

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Overview

- Subawards
- Other Special Issues
  - Inflationary Increases
  - Exchange Rates
  - Value Added Tax
  - Recharge Rates
- F&A Costs
- Other Budget Issues:
  - Budget Revision
  - Unallowable Costs
  - Agency Prior Approval of Costs

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SUBAWARDS

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Subawards In Your Proposal

- Minimum required documentation you need to obtain from EACH subrecipient
  - Subrecipient's itemized budget & budget justification (including its own direct + indirect costs)
  - Subrecipient's Statement of Work
  - Approval from the subrecipient's SPA office
- [Plus other documents as needed for that FOA]

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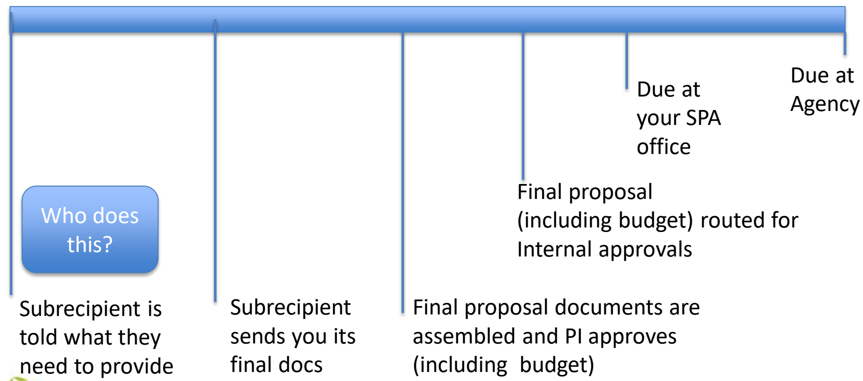
Proposal Timing is more complicated with Subawards



A Subrecipient's Budget

Subrecipient's Salary		$21,000		
Subrecipient's FBs		$9,000		
Subrecipient's Travel		$5,000		
Subrecipient's Supplies		$5,000		
Subrecipient's Equipment		$0		
Subrecipient's Other Direct Costs		$909		
Sub's Consortium/Contractual/Subaward		**$0**		
	Total Direct Costs	$40,909		
	Total Indirect Costs @ 10% MTDC	$4,091		
	Total Costs	$45,000	--->	

A Pass-through Entity's Budget with a Subaward

Prime's s Salary		$100,000	
Prime's FBs		$30,000	
Prime's Travel		$10,000	
Prime's Supplies		$7,500	
Prime's Equipment		$12,000	
Prime's Other Direct Costs		$32,000	
Prime's Consortium/Contractual/Subaward		**$45,000**	The Subrecipient's total funding request goes here (its direct costs + its indirect costs)
	Total Direct Costs	$236,500	
	Total Indirect Costs @ 52% MTDC	$106,350	The Prime gets its OWN F&A on the first $25,000 of each subaward
	Total Costs	$342,850	

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Why do both the prime recipient and the subrecipient get F&A?

Isn't that double dipping?

- Subrecipients get F&A to pay for their own indirect costs
- Prime recipients get F&A on the first $25,000 of each subaward to help them pay for subrecipient issuance and monitoring costs
  - Note that the $25,000 threshold is applied to the entire competitive segment (e.g., 3 year or 5 year period), not year by year.

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Subawards

- Review of subrecipient budgets is critical to your successful proposal.
  - Review carefully for allowable & reasonable costs
  - Caution equip cap level maybe lower than 5K
  - Double check the sub's calculation – Does it add?
  - Read budget justification for clear explanations: (Does it match the budget)
  - Ensure F&A calculation is done properly

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200.414 - Indirect (F&A) Costs for Subrecipients

- A 10% de minimis IDC rate is now available under §200.414 (f) and primes are obligated provide it under §200.331 – Section (f) of .414 says, " any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to Part 200 . . . <u>may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely.</u> Importantly, if chosen, the non-Federal entity must use the 10% rate on all federal awards until the entity negotiates an approved rate with their cognizant agency.

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OTHER SPECIAL ISSUES

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Inflationary Increases:

- Budgeting Multi year awards requires estimating costs well into the future:
  - What costs will likely rise?
    - Salaries (any major salary increases due to promotions?)
    - Benefits
    - Travel costs
      - (air fare, hotels, meals)
- Some agencies limit inflationary rates (NIH 3%)

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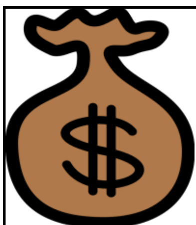
Exchange Rates:

- Exchange Rates are allowable under the uniform guidance: no prior approval required, unless it would require an increase in the award amount
- What about the foreign transaction fees on credit cards?
- How do you plan for these in your budget?



Value Added Tax

200.470 Taxes (including Value Added Taxes)

- (c) Value Added Tax (VAT). Foreign taxes charged for the purchase of goods or services that a non-Federal entity is legally required to pay in country is an <u>allowable</u> expense under Federal awards.
- [Goes on to say that tax refunds or applicable credits have to be credited back as well]

This may impact your budget if equipment will be purchased overseas

Recharge Centers

§200.405 Allocable costs (d)

§200.446 Idle facilities and idle capacity.

§200.468 Specialized service facilities (Excerpted).

(a) The costs of services provided by highly complex or specialized facilities operated by the non-Federal entity, such as computing facilities, wind tunnels, and reactors are allowable …

(b) The costs of such services, when material, must be charged directly to applicable awards based on actual usage of the services on the basis of a schedule of rates or established methodology that:

- (1) Does not discriminate between activities under Federal awards and other activities of the non-Federal entity, including usage by the non-Federal entity for internal purposes, and
- (2) Is designed to recover only the aggregate costs of the services.

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Recharge Center Rates (Service Center)

- Basic Calculation
  - Rates based on actual costs only, depreciation cost of equipment
- Recent Audits Involving Recharge Rates
  - Institution unable to substantiate rates
    - “We charge what others charge”
  - Departments had no documentation explaining the charges

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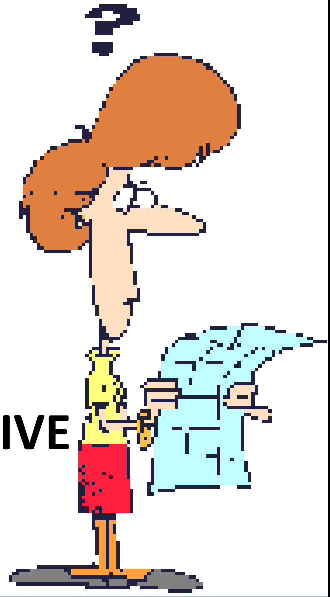

FACILITIES & ADMINISTRATIVE COSTS (F&A)

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F&A Costs

- Reimbursement of costs already incurred by the institution
  - Heat, electric, maintenance
  - Interest an debt incurred to build new facilities
  - Library costs
  - Payroll, Human Resources
  - Procurement, travel offices
  - President, Legal, Police
  - Dean + Chair Offices
  - Pre Award / Post Award Offices

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F&A Costs are Real

- "Any research project must cover two components of costs -- those directly attributed to the project and those incurred for the general support and management of research.
- …If the sponsors of research projects do not fully reimburse the costs, they must be paid from other institutional funds."
  - American Council on Education

Calculating the Amount of F&A Costs

- Generally speaking there are three ways that F&A Costs are calculated:
  - Total Direct Costs (TDC) – all costs are included
  - Modified Total Direct Costs (MTDC) – some costs are excluded
  - Salary & Wage (S&W) – only salaries and wages are included

What Is Excluded from F&A for Modified Total Direct Cost (MTDC) Base

- Equipment (greater than $5,000)
- Capital Expenditures
- Charges for Patient Care
- Portion of each subgrant/subcontract in excess of $25K
- Rental agreements (for facilities)
- Renovations
- Stipends
- Tuition

Calculating F&A: MTDC

M
T
D
C

The budget categories are complete, the F&A needs to be calculated, and the rate being used is the institution's rate negotiated with the federal government

Sum all the budget categories to obtain the total direct costs (TDC)

Subtract all excludable budget categories to obtain the modified total direct costs (MTDC)

Multiply the MTDC by the F&A rate to obtain the F&A Costs

Add the F&A Costs to the TDC to obtain the total project costs (TPC)

M
T
D
C

Calculating F&A: MTDC

Personnel	$100,000
Equipment	10,000
Travel	5,000
Supplies	20,000
Subcontract	40,000

Total Direct Costs (TDC)	$175,000
Less: Equipment	10,000
Subcontract > $25K	15,000

Modified Total Direct Costs (MTDC)	$150,000
F&A @ 50%	75,000

Total Project Costs (TPC) = TDC + F&A= $175,000 + $75,000= $250,000

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T
D
C

Calculating F&A: Total Direct Costs (TDC)

The budget categories are complete, the F&A needs to be calculated, and the rate being used is the institution's rate negotiated with the federal government

1. Sum all the budget categories to obtain the total direct costs (TDC)
2. Multiply the TDC by the F&A rate to obtain the F&A Costs
3. Add the F&A Costs to the TDC to obtain the total project costs (TPC)

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Example: F&A on TDC

T
D
C

Personnel	$100,000
Equipment	10,000
Travel	5,000
Supplies	20,000
Subcontract	40,000

Total Direct Costs (TDC)	$175,000
F&A @ 50 %	87,500

Total Project Costs (TPC) = TDC + F&A= $175,000 + $87,500= $262,500

Calculating F&A: Example 2 – Total Project Costs Are Known

T
P
C

The total project costs (TPC) are known and a budget breakdown by category is needed – or how much should be budgeted for F&A?

Subtract all non-F&A bearing amounts from the TPC, then divide that number by (1+F&A rate) to obtain a modified total direct cost (MTDC) amount.

Example: Total project costs (TPC) are $200,000; the work will be done onsite so the F&A rate is 50%; equipment costing $8000 is needed; and a subcontract in the amount of $35,000 will be issued.

T
P
C

Calculating F&A : Example 2 – Total Project Costs Are Known

Total Project Costs (TPC)	$200,000
Less	
Equipment	8,000
Subcontract > $25K	10,000

Revised TPC	$182,000

Revised TPC divided by (1 + F&A rate) equals MTDC or

$$\frac{\$182{,}000/1.50}{\$121{,}333} \quad = \text{MTDC}$$

MTDC times F&A rate = F&A amount $ 121,333 x 50% = $60,667

121,333 (Revised TPC) + 8,000 (Equip) + 10,000 (Sub) + 60,667 (F&A) = $200,000

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Reduced F&A Costs

- Many federal programs limited the % of F&A that can be charged
  - 8% Department of Education
  - 24% USDA
- Be sure to check the Funding Opportunity Announcement (FOA) for limitations

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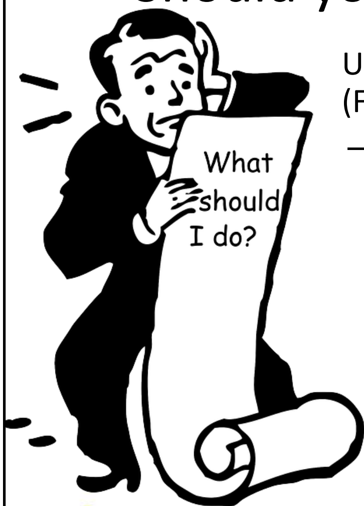
Should you waive F&A Costs?



Uniform Guidance 200.414(c) - Indirect (F&A) Costs

– Federal awarding agencies must accept approved negotiated indirect cost rates under 200.414 (c)(1) unless a different rate is required by Federal statute or regulation, or when approved by a Federal awarding agency head or delegate based on documented justification as described in paragraph (c)(3) of this section.

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Common Institutional F&A Practices

- Agree to reduced F&A for:
  - Federal agencies having agency-approved deviations (like NIH's 8% training grant rate)
  - Non-profit entities having published guidelines applying a lower rate to their entire agency or to an entire program (like American Heart Association)
  - A special rate just for industry sponsor-initiated clinical trials (e.g., 26-35%)
  - "Direct cost equivalency" concept for PIs transferring into your institution from an institution with a lower rate
  - Awards from your state (particularly for public institutions)

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To Waive or Not to Waive (we are all different!)

Reasons Cited to Waive

- Seed grants to start new lines of inquiry or "get food in the door" with a sponsor
- Encourage strategic funding
- Support New PIs or PIs with changed career goals
- Political (PI threatens to leave or senior administration wants to keep him/her happy)
- Small businesses with limited cash
- Only source of funding for a specific topical area
- "We're going to do the project anyway"
- Some money is better than no money

Possible Reasons Not to Waive

- Equal treatment for other investigators or other sponsors
- Perceived increase in competitiveness
- Proposals weren't routed through official U channels and now the agency expects to fund without paying F&A

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One Award, Two Rates!

- It is possible for an award to have two components, work performed on-campus and work performed off-campus. The result could mean that you have to create two budgets. One will have the off-campus rate, the other the on-campus rate.
  - The budgets will have to be combined and clearly explained to the sponsor.
  - Check your F&A rate agreement to see if this is allowable

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One Award, Three Rates?

- If your institution has negotiated F&A rates that increase (or decrease) each year, the budget should reflect the changing rates in the out years.
  – Clearly show the different rates on the annual totals.
  – Make sure your budget justification explains the reason for the different rates.

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OTHER BUDGET CONSIDERATIONS

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Budget Revisions

- What happens is the sponsor cuts the budget?
- Begin with a reexamination of your statement of work
  - What part of the Work can be reduced or eliminated?
    - Will a portion of the work scope/deliverables be eliminated? Will that impact a subrecipient?
  - Be cautious of just taking less for the same work…

Budget Revisions

- Be cautious about across-the-board cuts
  - Don't cut a subrecipient without discussing it with them first (let them decide or have input on where to take the cut if possible)
  - Equipment often cannot be cut
  - Salary rates can't be cut – so effort will have to be cut or a person eliminated
    - What are the consequences for reducing a person's effort? Internal dialogue needed?
  - Eliminate a trip rather than shortchange reimbursement for all travel?
- F&A
  - Don't assume rate can be reduced
  - Direct cost cuts will impact F&A, so you may reach your bottom line goal faster

Budget Revisions

- Uniform Guidance 200.308 Allows for moving expenses between budget categories
  - Exceptions
    - Participant Support Costs (c.5)
    - Subawarding or transferring out work (c.6)
    - Changes in the amount of cost-sharing (c.7)

See agency specific rules

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Budget Final Review

- Make sure the math is right!
- Double check the F&A calculation to ensure that only the correct items were included.
- Review all subrecipient budgets for accuracy and compliance with the regulations.
- Review the budget justification for clarity and consistency with the final budget.

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Caution on Allowability

- An “allowable” cost is one that is eligible for reimbursement by the federal government.
- Contrast with:
  - PERMISSIBLE BY INSTITUTION   A cost is permitted by institution, as outlined in its various administrative policies or procedures.
  - ALLOWABLE BY AGENCY: A cost is permitted by the policies of the sponsoring agency or the terms or an award.
- An "unallowable" cost is one that is not eligible for reimbursement by the federal government.

Budgeting Unallowables

IF a cost is <u>unallowable</u>, budgeting for it and getting an agency to “approve” it by failing to catch and remove the cost in an award does NOT make the cost allowable!

But …

UG - Prior Written Approval -200.407

- In order to avoid subsequent disallowance or dispute based on unreasonableness or non-allocability, the non-Federal entity <u>may</u> seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs.

NEW

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Questions?

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