



SOUTHERN UNIVERSITY AND A & M COLLEGE SYSTEM
BATON ROUGE, LOUISIANA 70813

OFFICE OF THE
VICE PRESIDENT FOR
FINANCE AND BUSINESS AFFAIRS
AND
COMPTROLLER

TELEPHONE: (225) 771-5550
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DATE: December 19, 2013

TO: Dr. Monique Guillory-Winfield, Mr. Duane Wright, Mr. Flandus McClinton,
Mr. Jullin Renthrope, Mr. Ben Pugh, Ms. Linda Batiste, Mr. Terry Hall

FROM: Kevin Appleton, Vice President for Finance and Business and Comptroller

SUBJECT: New Facilities and Administrative Costs (Indirect Costs) Rate Agreement *MA*

Every few years Southern University and A&M College System and its campuses (collectively referred to as Southern) negotiate to obtain a federal Facilities and Administrative Costs Rate Agreement (also known as the indirect cost rate agreement) with our cognizant federal agency, the Department of Health and Human Services (HHS). The first part of the process is for Southern to compute the actual costs associated with support of sponsored activity both on and off campus.

Southern then enters into discussions with HHS, which typically leads to negotiated rates that are less than the computed rates, as was the case this time. Our previous F&A Costs Rate Agreements, based on Salaries and Wages (S&W), expired on various dates prior to and including June 30, 2013. Since the expiration of these previous agreements, we have been using provisional rates while preparation of new cost proposals and negotiations on the new rate agreement continued. Those negotiations have now been completed and we have a new F&A Costs Rate Agreement. The new rates are based on Modified Total Direct Costs (MTDC), and are applicable to all Southern campuses (SUBR, SUNO, SUSLA, SUAREC, and SULC). The official agreement was dated November 22, 2013 with the following rates and terms:

Applicable To:	From Date:	To Date:	On-Campus Rate (%) MTDC	Off-Campus Rate (%) MTDC
All Campuses (SUBR, SUNO, SUSLA, SUAREC, SULC)	07/01/2013	06/30/2017	40.00	26.00

The change in the rates, and the base to which the rates are applied, should result in recovery of a greater share of the actual costs related to support of sponsored projects. When fully implemented, this change should provide additional dollars to Southern in support of our research and sponsored activities. It should be noted that not all sponsored projects will automatically be charged with the new F&A rates as of July 1, 2013. The official rate agreement, as well as guidelines for the implementation and application of the new F&A rates, is attached to this memorandum.

The newly approved federal negotiated rates are based upon Modified Total Direct Costs (MTDC), which is the defined base of expenses to which the rate is applied. Those (MTDC) costs include all direct costs except:

- **equipment items costing over \$5,000;**
- **patient care costs;**
- **student stipends, scholarships and fellowships;**
- **capital expenditures (construction and renovations);**
- **rental of off-campus space, and**
- **that portion of each sub grant and subcontract in excess of \$25,000.**

Please disseminate this information to all PIs, administrators, faculty, and staff with responsibility and/or oversight related to grants and sponsored projects management activities. Thank you for your assistance and support.

Copy: President Ronald Mason
Chancellor James Llorens
Chancellor Victor Ukpole
Chancellor Ray Belton
Chancellor Leodrey Williams
Chancellor Freddie Pitcher

COLLEGES AND UNIVERSITIES RATE AGREEMENT

EIN: 1726000817A1

DATE:11/22/2013

ORGANIZATION:

FILING REF.: The preceding
agreement was dated
09/18/2009

Southern University and A&M College

P.O. Box 9212

Baton Rouge, LA 70813

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

SECTION I: Facilities And Administrative Cost Rates

RATE TYPES: FIXED FINAL PROV. (PROVISIONAL) PRED. (PREDETERMINED)

EFFECTIVE PERIOD

<u>TYPE</u>	<u>FROM</u>	<u>TO</u>	<u>RATE(%) LOCATION</u>	<u>APPLICABLE TO</u>
PRED.	07/01/2013	06/30/2017	40.00 On Campus	All Programs 1,2,3
PRED.	07/01/2013	06/30/2017	26.00 Off Campus	All Programs 1,2,3
PROV.	07/01/2017	06/30/2019		Use same rates and conditions as those cited for fiscal year ending June 30, 2017.

- (1) Baton Rouge Campus and Extensions
(2) Shreveport Campus
(3) New Orleans Campus

***BASE**

ORGANIZATION: Southern University and A&M College

AGREEMENT DATE: 11/22/2013

Modified total direct costs, consisting of all salaries and wages, fringe benefits, materials, supplies, services, travel and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Modified total direct costs shall exclude equipment, capital expenditures, charges for patient care, student tuition remission, rental costs of off-site facilities, scholarships, and fellowships as well as the portion of each subgrant and subcontract in excess of \$25,000.

ORGANIZATION: Southern University and A&M College

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SECTION II: SPECIAL REMARKS

TREATMENT OF FRINGE BENEFITS:

The fringe benefits are specifically identified to each employee and are charged individually as direct costs. The directly claimed fringe benefits are listed below.

TREATMENT OF PAID ABSENCES

Vacation, holiday, sick leave pay and other paid absences are included in salaries and wages and are claimed on grants, contracts and other agreements as part of the normal cost for salaries and wages. Separate claims are not made for the cost of these paid absences.

Equipment Definition -

Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

FRINGE BENEFITS:

FICA

Retirement

Worker's Compensation

Tuition Remission

Life Insurance

Unemployment Insurance

Health Insurance

Tuition Remission

TIAA/CREF

ORGANIZATION: Southern University and A&M College

AGREEMENT DATE: 11/22/2013

SECTION III: GENERAL

A. LIMITATIONS:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its facilities and administrative cost pools as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as facilities and administrative costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government.

B. ACCOUNTING METHODS:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from facilities and administrative to direct. Failure to obtain approval may result in cost disallowances.

C. FIXED RATES:

If a fixed rate is in this Agreement, it is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined, an adjustment will be made to a rate of a future year(s) to compensate for the difference between the costs used to establish the fixed rate and actual costs.

D. USE BY OTHER FEDERAL AGENCIES:

The rates in this Agreement were approved in accordance with the authority in Office of Management and Budget Circular A-21, and should be applied to grants, contracts and other agreements covered by this Circular, subject to any limitations in A above. The organization may provide copies of the Agreement to other Federal Agencies to give them early notification of the Agreement.

E. OTHER:

If any Federal contract, grant or other agreement is reimbursing facilities and administrative costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of facilities and administrative costs allocable to these programs.

BY THE INSTITUTION:

Southern University and A&M College

(INSTITUTION)

(SIGNATURE)

(NAME)

(TITLE)

(DATE)

ON BEHALF OF THE FEDERAL GOVERNMENT:

DEPARTMENT OF HEALTH AND HUMAN SERVICES

(AGENCY)

(SIGNATURE)

Arif Karim

(NAME)

Director, Division of Cost Allocation

(TITLE)

11/22/2013

(DATE) 0029

HHS REPRESENTATIVE:

Shon Turner

Telephone:

(214) 767-3261



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SOUTHERN UNIVERSITY AND A&M COLLEGE SYSTEM

GUIDLINES ON IMPLEMENTATION OF F&A (INDIRECT COST) RATES

What are facilities and administrative (F&A) rates?

Facilities and administrative (F&A) rates are the mechanisms used to reimburse the university for the infrastructure support costs, i.e. F&A costs, associated with sponsored research and other sponsored agreements. F&A rates are essentially overhead rates, calculated as a percentage of the direct costs of sponsored projects. These are actual costs to the university and directly support sponsored projects being performed by Southern University. **Sometimes F&A rates are referred to as indirect cost rates.**

- New Rates – System wide (Effective July 1, 2013)
 - On Campus = 40% Modified Total Direct Costs (MTDC) – System wide rate includes SUBR, SUNO, SUSLA, SUAREC, SULC
 - Off Campus = 26% Modified Total Direct Costs (MTDC) - System wide rate includes SUBR, SUNO, SUSLA, SUAREC, SULC

New Rates (Effective 7/1/13) F&A/Indirect Cost Rates

Project Type	On- Campus	Off-Campus
All Campuses (SUBR, SUNO, SUSLA, SUAREC, SULC)	40.0% MTDC	26.0% MTDC

Previous Rates F&A/Indirect Cost Rates (Expired at 6/30/13)

Project Type	On- Campus	Off-Campus
Baton Rouge	44.0% S&W Excluding Fringes	N/A
New Orleans	35.5% S&W Excluding Fringes	N/A
Shreveport	35.0% S&W Including Fringes	N/A

The previously negotiated F&A/Indirect cost rates were based on Salaries and Wages (S&W). **The new approved negotiated F&A/Indirect cost rates are based on Modified Total Direct Costs (MTDC) base, which is the total direct costs of the project, excluding the following:**

- equipment items costing over \$5,000,
- patient care costs,
- student stipends, scholarships and fellowships,

- capital expenditures (construction and renovations),
- rental of off-campus space, and
- that portion of each sub grant and subcontract in excess of \$25,000.

Off-Campus Definition: For all activities performed in facilities not owned by the institution and to which rent is directly allocated to the project(s) the off campus rate applies. If more than 50% of a project is performed off-campus, the off-campus rate will apply to the entire project.

What are facilities and administrative (F&A) costs?

F&A costs are defined in OMB Circular A-21 as costs that are “incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.” F&A costs are sometimes referred to as *indirect costs*. Because it is impractical to account separately for such costs, F&A costs are normally not charged as direct costs to sponsored projects.

Some examples of F&A costs include:

- Depreciation and interest costs associated with the University’s physical plant
- Operating and maintenance costs such as utility costs, security costs, and custodial costs
- Common administrative functions such as payroll and purchasing
- Sponsored programs general administration

How are F&A rates calculated?

F&A Rates are developed under the requirements of the OMB Circular A-21, Cost Principles for Educational Institutions. The rates are approved according to the F&A Cost Rate Agreement for Southern University and A&M College System negotiated with our cognizant federal audit agency, the Department of Health and Human Services (HHS), Division of Cost Allocation (DCA).

Equation used to calculate F&A Rates:

$$\frac{\text{Facilities and Administrative Costs}}{\text{MTDC Costs Base}} = \text{F\&A Rates}$$

How are F&A Rates determined for individual grants and contracts?

The actual F&A rates for most federally sponsored project awards are the standard rates referred to in the F&A rate agreement. While it should be customary practice to use the negotiated standard F&A rates on all sponsored projects, there are certain exceptions in which not all sponsors can reimburse the University for F&A costs at the negotiated rates. Statutory limitations may prevent some federal sponsors from reimbursing F&A costs at the federally-negotiated rates. Some non-federal sponsors such as state, local, and private agencies may have written policies concerning the reimbursement of F&A costs at less than the federally-negotiated rates. Once an F&A rate is set with a sponsor for an individual award, it remains in effect throughout the entire competitive cycle of the award.

The approved, negotiated F&A rates (40% MTDC on-campus, 26% MTDC off-campus) should be utilized on all proposals for sponsored projects, unless:

- **There is a statutory limitation or the sponsoring agency has a written policy that states otherwise, or**
- **An exception to use of the negotiated rate is approved by the campus Chancellor or system President.**

How are F&A Rates applied to individual grants and contracts?

F&A costs are charged to individual awards as direct costs are incurred. **The University does not recover F&A costs from sponsors until direct costs are charged to the award.** F&A is to be applied to modified total direct costs (MTDC) of awards. This is referred to as the "F&A Base", and is the base to which the negotiated rate is applied. MTDC represents the total direct costs of a sponsored project, less: items of equipment costing over \$5,000; capital expenditures; rental of off-campus space; student stipends, tuition, scholarships and fellowships; and the portion of each sub award/subcontract in excess of \$25,000. Examples of how the rate is applied are provided below.

Activity	Amount
A research grant is awarded. The negotiated F&A rate is applicable to the award.	40% MTDC
A researcher buys supplies costing \$100 on the grant	\$100
The university collects the F&A cost associated with that direct cost (supplies)	$40\% \times \$100 = \40
The same researcher purchases a piece of equipment costing \$10,000 on the grant	No F&A cost would be collected (equipment over \$5,000)
A subcontract for \$35,000 is paid from the grant	\$35,000
The university collects the F&A cost associated with that direct cost (subcontract for \$35,000)	$40\% \times \$25,000 = \$10,000$ (the portion in excess of \$25,000 is excluded from the F&A base)

F&A Rate Proposal process

The newly approved F&A rates are based upon FY 2011-12 (July 1, 2011 – June 30, 2012) costs. Negotiations were completed in November 2013, and the new rates are in effect from July 1, 2013 through June 30, 2017, with provisional rates through June 30, 2019. The next proposal will be due by December 31, 2016, based on the June 30, 2016 audited financial statements.

The rate approval process begins with compilation and submission of a cost rate proposal. The operating costs for a given base fiscal year are extracted from the financial accounting system. All

current fund expenditures with similar characteristics or purposes are aggregated into common cost categories called “cost pools” and classified as either facilities and administrative (F&A) or direct costs/functions. The pooled costs are then used to calculate rates that are incorporated into a proposal submitted to the Division of Cost Allocation (DCA). The proposal is the basis for negotiations that determine the actual F&A rates to be applied to grants and contracts. The F&A rates are negotiated with the cognizant federal audit agency, the Department of Health and Human Services (HHS), Division of Cost Allocation (DCA). The policies and regulations governing the establishment of F&A rates are set forth in OMB Circular A-21, Cost Principles for Educational Institutions.

What are the new F&A rates?

Southern University and A&M College System (Southern) is pleased to announce the successful negotiation of a new F&A (“indirect cost”) Rate Agreement, dated 11/22/2013 with the HHS. The new rates, applicable to all campuses within the SUS, are as follows:

- On-campus = 40% MTDC
- Off-campus = 26% MTDC.

These new rates will improve the reimbursement that Southern receives for its F&A costs incurred during the performance of work on sponsored research and sponsored agreements. Even with the current rate changes, Southern will not be fully recovering the infrastructure support costs (i.e. F&A costs) associated with sponsored projects.

Why did the F&A rates change?

To remain eligible for federal research funding, the University is required periodically to enter into negotiations with a designated federal agency (HHS) to review the indirect costs associated with sponsored projects and determine the appropriate level of contribution by federal funding agencies to those indirect costs.

Why is it necessary to have F&A (indirect) cost rate agreements?

F&A (indirect) cost rate agreements streamline the process of awarding, monitoring, and closing out Federal grants and contracts. When a grant or contract officer issues an award to an organization, he/she is unaware of the indirect costs that will be associated with conducting the program. Indirect expenses such as executive administration, payroll, accounting, human resources, building and equipment depreciation, utilities, janitorial and maintenance are difficult to identify directly to grants and contracts. The F&A (indirect) cost rate allows the grant or contract officer to calculate the appropriate allocation of indirect costs associated with any one project by applying the negotiated F&A rate to the respective base used to develop the rate.

Does the new rate agreement apply to both Federal and Non-Federal projects?

Yes, the new rates apply to all externally sponsored projects.

When should I start using the new rates in my proposals?

Principal Investigators (PIs) and their staff should begin using the new F&A rates in new, renewal and supplemental (competing continuation) proposals immediately.

Do I use these new F&A rates on all proposals?

The new F&A rates must be used on all new, competitive renewal proposals and supplemental proposals that require budget negotiations from sponsors. Non-competing renewals and non-competing continuation proposals will continue to use the originally approved F&A rates throughout the remainder of their competitive segment. Additionally, proposals for sponsoring agencies that have statutory limitations or policies prohibiting the reimbursement of F&A costs at the federally-negotiated rates should use the F&A rates set forth by the sponsor.

What rate should I use for my competing renewal application?

Competing renewal applications should use the appropriate new F&A rate.

Do I use the new F&A rate on non-competing renewal applications?

No. Please use the old (originally approved) F&A rate on non-competing renewal applications until the end of the competing segment.

My application was previously awarded at the previous F&A rate before the notification of the new rates. Will this rate be honored even though the new rate agreement specifies higher rates effective July 1, 2013?

Yes, awards previously approved at the old F&A rate will be honored for the budget period specified in the award.

How will the F&A rate be applied to a project grant that has already committed multiple periods of support

Rates currently in effect on active awards will be continued until the end of the current competitive segment of the award. A new competitive segment beginning on or after July 1, 2013 will be charged the new rate.

How will the F&A rate be applied to multiyear contracts?

Federal contracts that are incrementally funded (committed on a yearly basis) will continue with the current rate until the end of the current budget period. A new competitive segment beginning on or after July 1, 2013 will be charged the new rate.

What would happen if the federal agencies refuse to use the new F&A rate because the proposal was submitted using the old rate?

The Federal policy indicates that the award will be made at the currently effective F&A rates.

Will these new rates apply to Federal flow through funds?

Yes. Please use the new rates on Federal flow through funds.

How will the F&A rate be applied to subcontracts?

F&A rates for subcontracts under federal grants and contracts with start dates prior to July 1, 2013 will remain fixed for the life of the prime agreement (i.e., through the competitive segment of the prime award) at the F&A rate specified in the prime award. New subcontracts with a start date of July 1, 2013 or later should use the appropriate new F&A rate.

How will the new F&A rates impact the carry forward of funds?

Carry forward of funds will be impacted differently depending if sponsor approval is required or not. 1) When sponsor approval is required, one must look at the issuance date of the carry forward authorization and the start date of the most recent competitive segment of the original award to determine what F&A rate to use. 2) When sponsor approval is not required, one must review if funds are carried over within the same competitive segment or into a new competitive segment to determine what F&A rate to use.

Will the new higher F&A rates have an adverse impact on the competitive nature of my proposal?

Sponsoring agencies have established application guidelines that specify the inclusion of F&A costs, as well as proposal evaluation guidelines that state that panel reviewers are not allowed to include budget information (such as F&A rates) in their impact/priority score. Therefore F&A rates should have no impact on the competitiveness of a proposal.