



OFFICE OF THE VICE CHANCELLOR FOR RESEARCH

Overview of the System Government Costing Office: What Services Do We Provide & Who Needs Them?

Research Administrator Monthly Meeting (RAMM)
September 2019

Agenda

- Overview of System Government Costing Office:
 - Who we are?
 - What we do?
 - Who uses our services?

- Other Costing Topics:
 - Uniform Guidance (UG) CFR 200
 - Direct vs Indirect
 - Allowable Charging Practices on Grants
 - Service Activity Rates
 - Rate Model vs Other Charging Practices
 - The use of MOU's or other means to charge a rate to a grant as opposed to actual costs
 - Best Practices



Overview of System Government Costing Office

Who are we?

- President's realignment combined each Costing office into one "System Government Costing" office
- Effective January 1, 2018
- Offices in Chicago and Urbana
 - 3 staff in Chicago
 - 6 staff in Urbana
- Part of Office of Business and Financial Services (OBFS)
- Who To Ask: <https://www.obfs.uillinois.edu/government-costing/who-to-ask/>

What do we do?

- Our responsibilities include:
 - ❑ Facilities and Administrative (F&A) Rate development, audit, and negotiation
 - ❑ Fringe benefit rate development, audit, and negotiation
 - ❑ Tuition remission rate development, audit, and negotiation
 - ❑ Service Activity rate reviews, calculations, and training (Banner 3E fund types)
 - ❑ Cost Accounting Standards Board Disclosure Statement (DS-2)

What do we do?

- What costing functions must be complied with federal costing principles?
 - F&A Rates
 - Fringe Benefit Rates
 - Tuition Remission
 - Service Activities
 - Federal Disclosure Statement (DS-2)

What do we do?

Costing functions are highly regulated by federal rules and guidelines:

- Uniform Guidance Code of Federal Regulations, 2 CFR Chapter II, Part 200, et al. Uniform Administrative Requirements (UG), Cost Principles, and Audit Requirements for Federal Awards
 - Outlines the federal requirements for calculating the Facilities and Administrative, Fringe Benefit and Service Activity rates.
 - State Finance Act Restricts expenditures to those necessary to fund the Service or Storeroom facility.
- OBFS Business and Financial Policies and Procedures – Section 22 Service and Storeroom Activities (specific to 3E service centers)
<https://www.obfs.uillinois.edu/bfpp/section-22-self-supporting-revenue-generating/service-storeroom-activities/>
- OBFS Business and Financial Policies and Procedures – Section 22 Self-Supporting/Revenue Generating Activities (over-arching self-supporting policy, timely billing to sponsored projects)
Main Policy: <https://www.obfs.uillinois.edu/bfpp/section-22-self-supporting-revenue-generating>
Timely billing: <https://www.obfs.uillinois.edu/bfpp/section-22-self-supporting-revenue-generating/charge-self-supporting-to-sponsored-project-funds>
- OBFS Business and Financial Policies and Procedures – 16 Grants and Research Contracts (allowable costs)
<https://www.obfs.uillinois.edu/bfpp/section-16-grants-research-contracts/cost-principles>

Who uses our services?

- Pre and Post-Award Offices at UIC
- Principal Investigators
- Business Managers
- Colleges/Departments with sponsored project funds
- Service Center Managers who manage and monitor Banner fund type 3E



Other Costing Topics

Direct vs Indirect

What should be charged as direct v. indirect?

- **Direct Cost**

- 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.

“Typical” Direct Costs

- Direct Costs include:
 - Compensation of employees who work on that award and their related fringe benefits
 - Grad Student salaries
 - Subawards
 - Materials and Supplies, including costs of computing devices
 - Travel
 - Equipment, depending on intended use
 - Service Center costs

Direct vs Indirect

What should be charged as direct v. indirect?

- Indirect Cost/Facilities and Administrative (F&A) Cost
 - 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.
 - F&A 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.

“Typical” F&A (Indirect) Costs

- Facilities and Administrative (F&A)
 - Indirect or “overhead” costs
 - Facilities expenses: janitorial and maintenance, utilities, grounds keeping, depreciation of buildings and equipment, etc.
 - Administrative expenses: accounting, grants administration, director's office, departmental administration, etc.

Composition of Costs (UG 200.402)



Direct Costs



F&A
(Indirect)
Costs



Total
Costs



Unallowed
Costs



Allowable Charging Practices on Grants

Allowable Charging Practices on Grants

- 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.”

Allowable Charging Practices on Grants

- In addition, “criteria outlined in §200.403 - factors affecting allowability of costs must be applied in determining allowability.”
- Under Uniform Guidance, any "unallowable" expenses cannot be included in F&A cost pools when developing rates.
- In addition, the University must certify to the federal government that any unallowable costs have indeed been excluded from the rate proposal.

Impact of Appropriate Treatment of Cost

- Accurate rate proposals
 - 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.
 - Once F&A and fringe benefit rate proposals are compiled and appropriately documented by our Universities, they are required to be submitted to ONR.



Service Activity Rates

Charging a Service Rate vs. Direct Charging Sponsored Awards

- Direct Charge
 - One-time occurrence
 - Limited scope of services
- Service Rate
 - Must be supported by rate calculation
 - Must use historical costs a projection (Year 1 only)
 - Estimated volume (Year 1 only)

Compliant Rates vs Non-Compliant Rates

- Compliant Rates
 - Has a rate calculation to support the rates being developed and charged to customers
- Non-Compliant Rates
 - Flat Rates
 - Use as allocation as a basis to charge
 - Market rates
 - Etc.

Other Service Activity Rate Warnings

- Rate Model
 - Accurate Model
- Other Charging Practices
 - Can prove to be inaccurate, may not capture all costs related to service, etc.
- MOU's
 - Special arrangements

Best Practices

- Services
 - Services with different usage bases are calculated independently, cross-subsidy is not allowed between unrelated services
- Usage base
 - Unit of measurement/customers. For example: machine hour, person hour, per sample, number of units, miles, etc.
 - Track actual usage for base (denominator)
 - Existing services must use an actual historical year's usage
 - New services estimate usage (recalculating in one year using actual)
 - All users (internal and external) must be included in the base whether or not charged

Best Practices

- Expenditures
 - Only costs that directly relate to the service are charged to the fund
 - Costs should be allowable per university policy, state policy, and Federal Uniform Guidance
 - Review expenditures to verify allowability
 - Unallowable costs shouldn't be included in the rate calculation (such as bad debts, entertainment/alcoholic beverages, public relations, advertising, etc.)
 - Determine best method for identifying, allocating, and tracking expenditures across multiple related lines of service in a C-FOP
 - Using activity codes and/or program codes are recommended for multiple services in one fund
 - Make sure any expenditure allocations are allowable, reasonable, and well documented

Best Practices

- Equipment
 - Annual depreciation may be included in the rate calculation, *not* the purchase price or replacement cost
 - Federally funded purchases are **NEVER** allowable in internal rates
 - Equipment purchased using 3E *should* be included in rate calculation
 - Equipment purchased with funds other than 3E (non-3E) **may** be allowable for the rate calculation
 - Contact Government Costing for assistance
 - Make sure to ENTITY CODE equipment used in a 3E service and depreciation will be recovered as part of rates
 - UPAR assists with entity code assignment

Best Practices

- Monitor service activity fund
 - Check for variances that could affect the break-even rate
 - Check estimates used in setting rate and determining usage base for accuracy
- Review rate annually
 - Rates should be charged based on actual usage and direct costs
 - Rates should not discriminate against federally-supported activities of the institution (i.e., federal users cannot subsidize non-federal users)
 - Must recalculate at least every two years, annual review is recommended
 - Adjust next year's rate for surplus or deficit carryover
 - The over or under recovery balance is the accumulated fund balance, not just balance from the previous year
- Maintain documentation of calculation and rates
 - Publish current rates and maintain historical rates for prior years

Best Practices

- Bill on a timely basis
 - Billing is recommended on a monthly basis, REQUIRED for sponsored projects
 - Internal customers charged same rate for same level of service
 - All customers are to be charged
 - JV FOATEXT must list the following, at a minimum:
 - Service provided
 - Date(s) of service/sale
 - Unit cost
 - Total dollars charged to the user
- Revenue should be recorded using a revenue account code
 - Negative expenditures are not an appropriate way to record revenue

Questions/Contact Information

- System Government Costing
 - Who To Ask
 - <https://www.obfs.uillinois.edu/government-costing/who-to-ask/>
- Maureen Johnson maureen1@uillinois.edu or 312-996-4045