

 <p>Category: Financial</p> <p>Policy applicable for: Government Cost Compliance</p>	<p><i>Policy Title:</i> Preparation for an F&A Proposal (Draft)</p> <p>Effective Date: 01/23/2009</p> <p>Prior Effective Date: 01/23/2009</p> <p>Enabling Acts: Federal Regulations OMB Circular A-21</p>	<p><i>Policy Number:</i> 2.1.19</p> <p>Policy Owner(s): Sr. VP for Administration and Finance Vice President for Finance Vice President for Research</p> <p>Responsible Office(s): Government Cost Compliance</p>
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Background

Costs that are charged to sponsored programs fall into two categories. They are Direct Costs and Indirect Costs.

When considering federally funded projects, *Federal OMB Circular A-21* states that, "direct costs are those costs that can be identified specifically with a particular sponsored project... relatively easily with a high degree of accuracy." By contrast, "F&A costs are those 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 those involving resources used mutually by different individuals and groups, making it difficult to assess precisely which users should pay what share. Direct costs are easily assigned to a specific research project and paid by its direct grant funding.

The original version of A-21 was issued in 1958. More recent changes in 1991 to A-21 led to revisions and new restrictions, including a 26% cap on the administrative cost component, which includes General Administration, Departmental Administration, and Sponsored Projects (Grants and Contracts) Administration. *Circular A-21* changes in 1993 included restrictions on administrative and clerical salaries and a formal grouping of F&A cost pools into two broad categories--"facilities" and "administrative" costs.

Changes to *Circular A-21* in 1996 included consistency requirements when charging costs, the requirement to file a detailed Cost Accounting Standards (CAS) disclosure statement, an increase in the equipment threshold, fixed F&A cost rates for the "competitive segment" of an award (e.g., the rate in effect during the first year applies for all five years of a five-year award), and a replacement of the term indirect costs with the term Facilities and Administrative (F&A) costs. Recent changes implemented a standard format for F&A rate submissions.

Methodology

The methodology for developing F&A rates is a formalized process developed by the Federal government (consistent with generally accepted accounting principles and presented in *Circular A-21*) and is used to determine the University's F&A cost rate for sponsored research. This process is usually conducted every three years or at the end of a period covered by the last approved rates.

To prepare a rate proposal, all F&A costs within the institution are assigned to one of nine cost pools related to primary functions. *Circular A-21* defines the nine cost pools as follows:

1. Building Depreciation
2. Interest
3. Equipment Depreciation
4. Operations and Maintenance
5. Library
6. General Administration
7. Departmental Administration
8. Sponsored Projects Administration
9. Student Services Administration

Additionally, to further identify costs, every transaction as it is processed and all university space must be coded with a functional area code (see <http://www.uc.edu/af/documents/finserv/FunctionalAreas.pdf>).

Roles and Responsibilities

University offices that have responsibility for establishing new funds/accounts in SAP are responsible for ensuring that correct fund, cost center, and functional area codes have been used.

University personnel are routinely responsible for correctly assigning functional area codes to all transactions in SAP.

Department Business Managers are responsible for correctly assigning functional area codes in the space system for space assigned to their department.

Government Cost Compliance is responsible for the preparation of the F&A proposal which includes reviewing personnel, space data, and all expenditures for the base year of the proposal.

Related links:

[UC's policy Site and GCC's website](#)

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