

Considerations for Focusing on the F&A Future



*By Mark Davis, David Moore,
Andrew Campbell, Tony Benigno,
and Monika Moses*



COVID-19, campus shutdowns, shrinking budgets, and Facilities and Administration (F&A) rate extensions all require that administrators consider the investment in research and the impact on future years F&A rates. More than ever before, colleges and universities are planning for the next rate proposal and examining techniques to identify and optimize cost allocation to

benefitting activities. For example, many institutions took advantage of the opportunity to defer F&A proposals based on FY20 until FY21. In this review, we quickly examine the considerations of four important initiatives starting with a diagnostic review to improve costing processes via a dry run exercise; the benefits of proper utility metering; updating capital asset depreciation expense; and the evolution of the library infrastructure.

Why Dry Runs are Important

Regardless of the base year or situation, all institutions can benefit from performing a dry run ahead of their next F&A base year submission. Dry runs allow institutions to diagnostically analyze the expenditure data, sponsored awards, facilities occupancy, capital spending, supporting systems, and human resources required to prepare the F&A cost proposal. The dry run is performed based on the pre-base year. The diagnostic review will render findings and conclusions directed towards ensuring compliance and optimizing F&A cost reimbursement.

Much of the data that is used in a F&A proposal has counterintuitive impacts on the calculated rates. For example, one may think that an increase in research expenditures will result in a higher calculated F&A rate. However, unless the indirect expenses associated with the research have increased at the same rate as the direct expenses, the calculated rate will likely be lower.

Looking at the data set is a low effort, high impact endeavor. More broadly, the following questions are examples of areas that should be assessed to complete the review:

- When was the space occupancy data last updated?
- When was a physical moveable equipment inventory performed?
- Are buildings componentized to accelerate depreciation expense?
- Are utility meters working correctly?
- Are utility meters installed at separate individual buildings?
- What is the trend of library expenses with growing digital services?
- Are our research expenditures higher or lower than the last submission?
- How much cost-sharing needs to go into our proposal?

The benefits of a dry run should help executives and administrators make informed decisions based on data analysis and answer questions like:

- What opportunities are available to ensure compliance and to optimize cost recovery that can be implemented before the close of the base year?
- Should we consider a multi-year rate extension?
- Do we have the human resources to dedicate to the preparation of the F&A proposal?
- How much consulting expertise do we require?
- Are the current costing systems (cost modeling system, space management, fixed assets) adequate to support the documentation required for the F&A proposal?

These questions above are meant to provoke insight and can be answered without exhaustive effort. If followed appropriately, making enhancements and corrections before the close of the base year should ensure the ideal recovery of indirect costs.

Understanding Your Utility Costs During Covid-19

The knee jerk reaction we have heard many times is that institutions are reluctant to prepare a F&A cost proposal because of the uncertainty of costs, including utilities. Most assume that utility costs are lower than normal in response to closures at the institution, but is that true?

Before we get to that, let us take a moment to understand the importance and relationship of F&A, utility costs, and metering. The Operations and Maintenance (O&M) cost pool represents the largest uncapped pool and can account for over fifteen points of the Facilities component of the F&A rate. Utility costs are normally the largest component of the O&M pool and are identified by building based on utility consumption meters.

A closer look at recent actual metered data has spotlighted some surprising results. Though we have seen decreases in utility usage and corresponding cost, we have also seen many instances of no change in utility usage (when taking into account degree-days) or even an increase in utility costs related to the age of building; increased airflow rates; older building control systems without the ability to address partial occupancy;

or longer ‘occupied’ periods as physical distancing requires occupancy to be spread out; etc. Campus wide, there can be significant variations in utility consumption on a building type basis such as research, medical, classroom, administrative, or housing.

A closer analysis of utility usage and cost using building metered consumption is an important step when considering how to approach your next F&A rate proposal. If you are not yet in your base year, now is a good time to do a review of your system and replace or service meters in need, so you can make an informed decision.

Fixed Asset Depreciation Reporting Exigency

How is your institution keeping pace so that it is prepared for quarterly and annual financial reporting, and the upcoming FY21 or FY22 base year F&A proposal? Fixed asset accounting is a comprehensive process to account for cost expenditures to purchase capital assets, ranging from land and buildings to various types of equipment. While most of the process is routine, we all have adapted with our teams working remotely during this pandemic. However, specific steps to meet federal reporting requirements common to research and healthcare have been interrupted since March.

While certain institutions only fell three months behind, other research institutions will not have their staff back on campus until January 2021, putting them nine months behind. The information gathered during the inventory, tagging, and reconciliation process feeds management reports, financial reports, and is ultimately required to meet Federal A-133 audit requirements. These required steps include affixing barcode tags to equipment and recording their room location so that management can rely on this information to properly assign depreciation expense to buildings,

departments, principal investigators, and projects.

Beyond the regulatory requirements, the institution should consider building construction cost componentization in order to enhance depreciation related to new construction and renovation projects by identifying building, building services, and fixed equipment rather than capitalizing all project costs to one “standard” life. OMB Uniform Guidance indicates that research building components be depreciated on a building by building basis, understanding that institutional use varies based on the functional use and type of research activities, and the useful lives should be reviewed on a periodic basis.

We suggest beginning equipment inventory and building componentization studies early in the base year to accommodate a potentially longer timeline during the pandemic and the successful integration of the results into the accounting system and F&A proposal planning process.

The Evolution of the Library Infrastructure

Academic research libraries support their educational institutions’ missions to conduct research, including sponsored research. Colleges and universities have performed library cost analysis studies, typically employing user surveys, for at least thirty-five years to quantify the extent to which their libraries support sponsored research. The Library cost pool is uncapped and included in the Facilities component of the F&A rate. This has given institutions an incentive to measure the extent to which their academic libraries support sponsored research.

In the absence of a library cost analysis study the standard allocation methodology prescribes that library expenses shall be allocated to the institution’s major functions first on the basis of primary categories of users - including students, faculty, professional employees, and other users.

CONNECT THE DOTS

Sponsored Research Administration: A Guide to Effective Strategies and Recommended Practices

This two-volume compendium connects the dots to provide context and clarity around complex issues.



Chapters include:

- Research Compliance
- Subawards
- Audits
- Export Controls
- Administering Research Contracts
- Intellectual Property & Data Rights
- Facilities & Administrative Costs
- Pre-Award Administration
- Post-Award Administration
- Special Issues for PUIs
- Training & Education
- International Research Collaborations
- Regulatory Environment
- Special Issues for Academic Medical Centers
- Sponsored Programs Assessment
- Staff & Leadership Development

A GREAT
RESOURCE FOR
CRA EXAM PREP!

www.ncura.edu/publications/store.aspx

WORK SMART

Changes in the Work Day

This year we have all experienced profound changes in our day to day work lives. While responding to the many challenges of COVID-19, our organization also launched a new enterprise resource planning system, Workday. After months of discovery, design, build, and testing, we found ourselves working remotely in the final stages of the project leading up to implementation.

For those tasked with bringing on a new system, these tips may help you increase efficiencies and be more effective:

- **Learn the language:** Each IT system has its own language. Early adopters will benefit from enhanced communication with implementation partners, swifter navigation within the system, and ease of referencing supporting materials. This jargon will soon become the institutional vernacular so better to go ahead and employ it.
- **Be open:** Change brings opportunity for process improvements. Take the time to understand what additional functionality exists and how you can take advantage. While this may seem like extra work, make the change work for you.
- **Involve stakeholders:** Communicate the change to those impacted. Gain their perspectives on the planned activities as discoveries may come from seeing the project from their viewpoint.
- **Be flexible:** Implementing a system may take months or years to accomplish. During this time, the organization continues to evolve which may alter the scope of the project. Be prepared to accommodate amended plans and adapt to the new needs.
- **Crosstrain:** Systems have multiple connection points across of the organization. Focusing solely on a specific unit prohibits learning how the others work. Crosstrain to understand how the overall operation will function so potential issues can be resolved in advance.
- **Use your time wisely:** You have limited access to consultants or implementation partners. Make the most of this time. Set agendas, stay on topic, resolve issues, and learn actively. Failing to do so causes missed targets, failed knowledge transfer, and reduced time for testing and resolving issues after launch.
- **Be tolerant:** Things will go wrong. Timelines get off schedule, data uploads incorrectly, build tasks get missed, and work slows down as the new system goes live. Coming up to speed takes time so be patient and keep addressing issues as they arise.

Leading change affords an opportunity to inspire others and to make a difference in the state of things. While change brings stress and uncertainty, it also brings improvement and growth. Be the change agent that brings about a positive transformation in the workday. ■



Hagan Walker, PhD, MBA, serves as the Director of the Office of Sponsored Programs for Prisma Health through a research partnership with Clemson University. She has nine years' experience in Research Administration. In her current role, she provides comprehensive grant management support to faculty and staff with a focus on growing the research enterprise for the academic health center. She can be reached at haganw@clemson.edu

The purpose of the user surveys is to estimate the percentage of total library use associated with organized research for each of the library's major activities. Each cost center identified has a corresponding allocation base with usage data collected from the library user surveys (e.g., circulation costs are allocated based on circulation usage reported during the user surveys).

The surveys involve the selection of a random sample of time periods for conducting each survey distribution and collection of surveys, and an estimation of the proportion of library activities which are attributable to benefitting activities including organized research.

Academic libraries vary in their support of research. However, science, medical, and engineering libraries services and collections exhibit the most support for organized research at various universities. Journals and inter-library loan and document delivery are consistently the most highly used collection and service in support of research. In most cases, electronic services use approximates traditional services in its level of use to support research. As institutions transition in this new environment, there are various ways to create greater efficiency and improve margins associated with research services such as evaluating facilities related costs, implementing space productivity analyses for research programs and recovering as many costs as possible from the F&A function. Institutions that do not act will likely see margins continue to shrink, making it difficult to facilitate cost recovery or generate the funding necessary to support productive programs. ■



Mark Davis is a Partner and founding member and leader of Attain, LLC's Education, Nonprofits and Commercial Services practice. He has been consulting for 35 years and has worked as a key business advisor to more than 100 major research universities and academic medical centers, nonprofits and hospitals. He is experienced in federal cost policy, reimbursement and regulatory compliance, research finance and grants management. He also assists institutions in accomplishing strategic, organizational and financial goals, managing risk and compliance. He can be reached at mcdavis@attain.com



David Moore is a Manager in Attain LLC's Education, Nonprofit, and Commercial Services practice. He specializes in guiding higher education and academic medical center institutions on F&A proposal preparation and negotiation, diagnostic reviews, space functional usage studies, and other costing issues. He can be reached at dsmoore@attain.com



Andrew Campbell is a Senior Manager in Attain LLC's Education, Nonprofit, and Commercial Services practice. He has more than 30 years of experience advising clients in fixed asset management and depreciation reporting, building componentization studies, useful life studies, equipment inventory and reconciliation, and asset valuation services. He can be reached at apcampbell@attain.com



Tony Benigno is a Specialist Leader with Attain, LLC's Education, Nonprofit, and Commercial Services Practice. Tony has more than 25 years of experience in the HVAC industry, ranging from routine assessments and troubleshooting of existing meters and collection and reporting systems, to Project Management, Commissioning, and M&V related to the identification and recovery of utility and utility related costs including, but not limited to, F&A rate proposals. He can be reached at ambenigno@attain.com



Monika Moses, PE, is a Leader with Attain, LLC's Education, Non-profit, and Commercial Services Practice. Monika has more than 25 years of engineering experience, including energy benchmarking, energy utilization studies, conceptual design and implementation of metering programs, costing studies for cogeneration systems, and identification of strategies to improve the allocation of costs in the Operation and Maintenance cost pool. She can be reached at mmoses@attain.com