

University of Pennsylvania
Perelman School of Medicine

Procedures for Establishing Facilities and Administrative (F&A) Costs in a Sponsored Project Proposal

PURPOSE

To establish procedures for setting the level of Facilities and Administrative (F&A or indirect) cost recovery in the budgets of sponsored project proposals being submitted to external sponsors and to ensure that departments, centers and institutes maintain the highest possible F&A recovery.

DEFINITION OF FACILITIES & ADMINISTRATIVE (F&A) COSTS

The total costs of a sponsored project include (a) those directly attributable to its performance, e.g., salaries of project personnel, supplies, materials, services, equipment and travel, and (b) F&A costs, e.g., use and depreciation of buildings and equipment, utilities, administration and libraries. These latter costs are recovered through the application of an F&A cost rate, calculated in accordance with the cost principles set forth in 200 CFR Subpart E (Cost Principles).

To prevent inequity to federal sponsors when non-federal sponsors impose limitations on F&A reimbursement, OMB rules require that a university calculate its F&A rate by allocating F&A costs across **all** research, not just federally-sponsored research. This results in research rates which represent the cost of conducting all sponsored research and ensures that the federal government does not subsidize the F&A costs for research sponsored by non-federal sponsors.

UNIVERSITY POLICY REFERENCES

- University Financial Policy Number 2116 – Facilities and Administrative (F&A) Costs
<http://www.finance.upenn.edu/fpm/2100/2116.asp>
- University Financial Policy Number 2117 – Facilities and Administrative (F&A) Cost Rate Proposal
<http://www.finance.upenn.edu/fpm/2100/2117.asp>
- University Financial Policy Number 2118 – Negotiation of F&A Cost & Employee Benefit Rates
<http://www.finance.upenn.edu/fpm/2100/2118.asp>

The University negotiates with the Federal Government F&A cost rates for the following categories:

a. Research (on and off campus)

On-Campus rates are used for proposals where all work is done using University facilities or facilities rented by the University where rent is NOT charged as a direct cost to a sponsored project.

Off-campus rates are used when it is necessary for University personnel to be physically located at an off-campus site for a substantial period (normally 30 days or more) while engaged in the sponsored program.

If a sponsored program is being simultaneously conducted both on and off campus, separate budgets for the on and off campus work should be developed and charged accordingly (e.g., a project can have 2 fund numbers created each with the appropriate budget and corresponding F&A rate for the appropriate activity).

b. Instruction

Includes all teaching, course and curriculum development, and academic advising and development.

c. Other Sponsored Projects

The “other sponsored programs” rate is used when the project does not meet the criteria for research or training. Typical programs are health service projects, community service programs, seminars, conferences, public exhibition, and lecture series programs.

d. DOD Contracts

Current F&A cost rates are available at: <http://www.upenn.edu/researchservices/penndata.html>

REASON FOR POLICY AND PROCEDURE

To ensure that the University and the Perelman School of Medicine receives appropriate recovery for the facilities and administrative costs associated with all sponsored projects at our current approved rates and that a procedure is in place to review requests to consider accepting a lower F&A rate.

WHO SHOULD KNOW THIS PROCEDURE

- Department Chairs, Center and Institute Directors
- Department Business Administrators and Grant Managers
- Penn Center for Innovation (PCI)
- Principal Investigators, Clinical Research Coordinators and Project Managers
- PSOM Office of Clinical Research (OCR)
- PSOM Office of Research Support Services (ORSS)
- University Office of Research Services (ORS)

GENERAL INSTRUCTIONS

1. It is the policy of the University to charge all sponsored projects F&A costs at the appropriate federally approved rate. There are three scenarios where the F&A rate is charged at a rate other than the federally approved rate:
 - a. Awards from **not** for profit sponsors which have a stated published policy of awarding funds with an F&A rate at other than the negotiated rate, e.g., foundations and charitable organizations.

- b. Industry (for profit) funded (investigator and industry initiated) clinical trials of drugs and devices¹ - current F&A rate of 35%.
 - c. Awards from **for** profit sponsors supporting sponsored research agreements - the federally negotiated DoD contract F&A rate applies. For the current DoD F&A rate, refer to <http://www.upenn.edu/researchservices/penndata.html>
2. Under exceptional extenuating circumstances, requests for F&A rates different from those specified in 1.a. through 1.c. can be made at the time the proposal is submitted for review to ORSS or OCR. The process for submitting requests is described below. The cognizant dean or his/her delegate has decision making authority to deny or approve the request or to approve the request with modifications.
 3. The “other sponsored programs” rate is used when the project does not meet the criteria for research or training. Typical programs are health service projects, community service programs, seminars, conferences, public exhibition, and lecture series programs.

APPLICATION OF UNIVERSITY POLICY #2116 IN THE PERELMAN SCHOOL OF MEDICINE (PSOM)

1. The PSOM follows the University’s F&A cost recovery policies in all respects.
2. As a rule, the Perelman School of Medicine will **not** accept a lower F&A rate to a **for** profit company than the university’s approved federal, DoD and corporate clinical trial F&A rates (regardless of a department’s or investigator’s willingness to use discretionary funds to compensate the school for foregone F&A).
3. Principal Investigators (PIs) when preparing their budgets, should work with their departmental administrator **prior to** discussions with any sponsor to ensure that they capture all costs needed to complete the work. Direct costs and F&A costs must be calculated; together they represent the total cost of performing research. The F&A should be calculated into each of the categorical

¹ “Clinical trials” are defined as a research study in which one or more human subjects are prospectively assigned to one or more interventions (which may include placebo or other control) to evaluate the effects of those interventions on health-related biomedical or behavioral outcomes studies requiring informed consent. Clinical research can include observational studies, registry studies, EHR data extraction, mechanistic, exploratory/development, pilot/feasibility, behavioral studies, qualitative and survey studies. Development of clinical protocols, the provision of clinical services *in clinical space* in connection with a clinical trial (e.g., core lab services), and studies occurring in the Center for Human Phenomic Science (CHPS) are also subject to the clinical trials rate. Any other activity is presumed to be subject to the DOD F&A rate. **If an investigator or other member of the Penn research community is uncertain as to whether the clinical research F&A rate applies, s/he should consult with his or her business office before discussing a budget using the clinical research rate with a sponsor.** If the business office requires guidance, OCR Finance should be consulted. OCR Finance and ORSS will consult in cases of uncertainty.

line items in the budget (attached SAMPLE budget). This includes salary and benefits, all supplies and equipment, conducting or hosting meetings, IT costs, publication costs, etc.

4. Budgets should be presented to the sponsor as a total cost budget rather than separating direct and F&A costs unless specific sponsor budget forms require this distinction.
5. If a sponsor is requesting a lower F&A rate and both the department chair and the PI believes the situation is an exceptional, extenuating circumstance, a request for a lower F&A rate can be submitted to the Executive Director of ORSS for review.
6. If this path is being pursued, the Penn budget negotiator must ensure that the sponsor has been informed that the proposed budget requires an exception to university F&A policy and thus is subject to review and approval of PSOM leadership. In addition, the request must be submitted, reviewed and adjudicated prior to sponsor deadlines and/or contract approvals.
7. Review Process:

The proposal along with the requested budget must be submitted to the Executive Director of ORSS. Requests must include (a) the requested F&A rate, (b) amount in dollars that would be incurred if the reduction is approved, (c) a summary of the efforts to negotiate the budget, (d) a justification for the request and a completed F&A Reduction Request Form signed by the PI, BA, and the Department Chair.

8. When reviewing requests for a reduction in F&A, consideration will be given to the following:
 - a. the loss in F&A that will be incurred
 - b. the savings, if any, of direct costs to the School that would result from the sponsored project award
 - c. the overall impact on the School of Medicine's General Operating Budget.
 - d. the existing sponsored program portfolio and indirect cost recovery of the PI
 - e. discretionary funds available to the PI and the Department;
 - f. departmental sponsored program F&A effective rate
 - g. incurring more than normal compliance burden, risk, and administrative burden
9. Upon completion of the financial review, the Dean's designee will attempt to arrange for the requisite level of reimbursement of F&A costs to the School through the following steps:
 - a. Discussion between the Dean's designee and the PI and/or the BA to explore viable alternative solutions (e.g., charging F&A costs as direct costs to the project or departmental contribution).

As a rule, if the F&A costs fall below the established F&A rate and costs that typically are considered "indirect" costs of the project have been included among the direct costs of the project, but still fall below the established rate, the expectation is that the

department, center or institute will be required to provide those funds to make up the difference. ORSS will complete a journal to transfer those funds from the department or the PI to the Perelman School of Medicine's General Operating Fund.

- b. Discussion between the Dean's designee and the sponsor, or the PI and the sponsor, to negotiate further for appropriate F&A reimbursement
10. It is an expectation that if a request is denied by the Dean or his/her designee or was not submitted for review, the Departments will absorb the F&A cost recovery.

SUMMARY

Keep in mind that the Perelman School of Medicine understands the importance of working and partnering with our industry sponsors to enhance our research mission and bring the research endeavors of our faculty to its highest potential. However, there are real facility and administrative costs the School must cover in the execution of all grants, regardless of funding source. The University engages in a very lengthy negotiation process with the federal government for our F&A rates and acceptance of lower rates from for profit industry for the same costs that the federal government reimburses us, compromises that process and can jeopardize future negotiations.

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