



Office of Research Services

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To: Senior Business Officers
From: Andrew B. Rudczynski *Andrew B. Rudczynski*
Subject: Application of New F&A Rates to New & Existing **Federal Awards**
Date: June 30, 2005

This memo serves to update and clarify ORS' June 15, 2005 announcement of the University's newly negotiated F&A rates. The University negotiated the following rates:

Fiscal Year	Research On Campus	Other Sponsored Programs	Instruction	All Programs Off Campus	DOD Research Contracts & Non-federal Sponsors
2005	57.5%	36.0%	52.0%	26.0%	59.9%
2006	57.0%	36.0%	52.0%	26.0%	59.9%
2007	57.0%	36.0%	52.0%	26.0%	59.9%
2008	57.5%	36.0%	52.0%	26.0%	59.9%

The application of F&A rates to federal awards is governed by OMB Circular A-21, Section G.7 as well as a June 9, 2001 clarifying memorandum agreed to by OMB, NIH and other federal sponsors. The University has been operating under a provisional research rate of 58.5% (as well as other provisional rates such as "Other Sponsored Programs" and "Instruction") since July 1, 2004. The negotiation of new predetermined rates requires us to make adjustments to certain federal awards based on when their budget periods begin and, in some cases, when expenses are incurred.

I. Awards with Project Start dates Prior to July 1, 2004

Any federal award whose new or competitive segment began prior to July 1, 2004 will retain the 58.5% F&A rate until the completion of the current project segment.

II. Awards with Project Start Dates of July 1, 2004 and Later

New, Competing Renewals and Change of Grantee awards and new or competing federal pass-through awards will be charged F&A rates in effect in the fiscal year in which expenditures are made.

The 57.5% rate will be used for charging F&A costs for FY 2005, the 57% rate will be used for FY 2006 and FY2007, and the 57.5 % rate will be used for FY 2008 and thereafter.

For example, a new award with a budget period of April 1, 2005 to March 31, 2006, will be set up with an F&A rate of 57.5%. On July 1, 2005 the F&A rate will be changed to 57%. In this example, the award would be at 57.5% for three months and 57% for nine months. If an award extends beyond FY2008, the 57.5% rate will be applied for the remaining years of the competitive segment.

III. Treatment of Carry Forward of Unobligated Balances Requiring Sponsor Approval and Supplements

Carry forward of unobligated balances **requiring sponsor approval** and supplements are considered by sponsors as new authorizations, separate from the original awards. The F&A rate to be used on these awards/authorizations will depend on the issuance date of the award/authorization.

A. Carry Forward of Unobligated Balances and Supplements Issued Prior to July 1, 2004

These awards/authorizations were made at the 58.5% rate and F&A costs will continue to be charged at that rate.

B. Carry Forward of Unobligated Balances and Supplements Issued July 1, 2004 and Later on Awards with Original Start Dates Prior to July 1, 2004

These awards/authorizations were made at the rate(s) in existence at the time of the awards/authorizations. F&A charges will be made at the rate(s) for the fiscal year(s) in which the expenditures are made even if the original award was made prior to July 1, 2004. A new fund will be established for these awards/authorizations to accomplish the appropriate charging of F&A costs.

C. Carry Forward of Unobligated Balances and Supplements Issued July 1, 2004 and Later on Awards with Original Start Dates of July 1, 2004 or Later

These awards/authorizations should be made at the rate(s) in existence at the time of the awards/authorizations. F&A charges will be made at the rate(s) for the fiscal year(s) in which the expenditures are made. A separate fund will not be required and the award will be accounted for in the account established for that budget period.

IV. Preparation of Proposal Budgets

The appropriate fiscal year negotiated rates must be used for budgeting reimbursement of F&A costs for each year of a competitive segment and must be apportioned for the F&A rates in existence during the budget period.

For example, for an application that has a proposed start date of April 1, 2006, year 1 F&A is to be requested at the rate of 57% of modified total direct costs (MTDC). The requested F&A for year two is to be shown at a rate of 57/57.5 and calculated as 3/12 of the MTDC at 57% and 9/12 at 57.5%.

V. Inconsistent Treatment of Award Notices by Federal Sponsors

Should any federal award be made that is not consistent with these procedures, ORS will be responsible for negotiating and correcting the award documents. Schools and Departments should consult with ORS in anticipation of such an award in order to prevent any problems, especially as federal sponsors acclimate to our new negotiated rates.

VI. Adjustment of F&A Rates

ORS will adjust overhead parents on all impacted funds as described in the June 15 announcement. Briefly, the "Overhead" parent will be changed to the appropriate rate so that the fund will be charged accordingly. Funds remaining after the reduction of the F&A rate can be rebudgeted in accordance with sponsor guidelines/award terms and conditions.

In PennERA, the "F&A Rate" field will be changed on the affected increments so that the correct F&A rate will be reflected on the AIS. An AIS on-line will be created and sent to the appropriate parties. The breakdown between Direct Costs and F&A will **not** be changed in the awarded or future increments and will reflect the current amounts shown on the award document.

Departments continue to be responsible for ensuring that the charges which hit their funds are appropriate. It is important that the departments review their funds regularly to ensure that all charges incurred, including F&A, are appropriate. If at any time the F&A charged to an account appears to be incorrect, ORS should be contacted immediately to avoid potential problems such as overdrafts.