BUSINESS AND FINANCE DEPARTMENT
Grants Accounting

Effective Date: 8/1/2026

CONTROLS OVER FACILITIES AND ADMINISTRATIVE (INDIRECT) COSTS POLICY

Policy Number	552-01
Approval Authority	Chief Financial Officer
Responsible Administrator	Controller
Responsible Office	Business and Finance
Policy Contact	Director of Grants Accounting

1.0 POLICY STATEMENT

Tennessee State University is committed to ensuring the accurate, consistent, and compliant allocation of costs charged to federally sponsored awards. The University will maintain effective administrative, financial, and internal control processes to ensure that costs charged to sponsored awards comply with applicable federal regulations, sponsor requirements, and institutional policies.

All facilities and administrative costs (F&A indirect cost) charged to federally sponsored grants, cooperative agreements, and contracts must be allowable under applicable federal regulations, sponsor terms and conditions, and University policies; allocable to the sponsored award based on the relative benefit received; reasonable and necessary for the performance of the sponsored project; consistently treated in accordance with established accounting practices; and adequately documented to support the allocation methodology and financial activity recorded.

TSU will ensure that cost allocation methodologies are based on documented, reasonable, and consistently applied criteria supported by reliable data and appropriate approvals.

No cost will be charged, transferred, or allocated to a sponsored award for the purpose of resolving funding shortfalls, spending down unobligated balances, correcting administrative errors, or using available grant funds without appropriate justification, documentation, and review.

2.0 IMPORTANCE AND REASON FOR THE POLICY

The purpose of this policy is to establish guidelines for the development, review, approval, and submission of the University's Facilities and Administrative (F&A) cost proposal, and to define how F&A costs are calculated, recorded, and reported within the accounting system. This policy ensures compliance with federal regulations and promotes consistency, transparency, and accountability in the recovery of indirect costs associated with sponsored programs.

The University will prepare and submit an F&A cost proposal in accordance with federal requirements applicable to institutions receiving reimbursement for indirect costs. The proposal will be developed in compliance with Uniform Guidance (2 CFR Part 200), unless otherwise negotiated, and will be submitted to the University's cognizant federal agency for negotiation and approval.

F&A costs will be applied, recorded, and reported consistently across all sponsored projects in accordance with the approved rate agreement, sponsor requirements, and institutional policies.

Failure to properly allocate costs may result in disallowed costs; required reimbursement to sponsors; audit findings; increased sponsor oversight; restrictions on award expenditures; and/or corrective actions.

This policy applies to all federally sponsored grants, cooperative agreements, and contracts and includes all individuals and administrative units responsible for sponsored award management.

3.0 DEFINITIONS

Cognizant Agency: The federal agency responsible for reviewing, negotiating, and approving the University's F&A cost rates (e.g., U.S. Department of Health and Human Services).

Facilities and Administrative (F&A) Costs (Indirect Costs): Costs incurred for common or joint objectives that cannot be readily and specifically identified with a particular sponsored project (e.g., utilities, administrative support, depreciation).

F&A Cost Proposal: A formal submission detailing the University's indirect cost structure used to establish reimbursement rates with the federal government.

Modified Total Direct Costs (MTDC): The base used to calculate F&A costs, excluding specific cost categories as defined by federal regulations.

Rate Agreement: The official document issued by the cognizant agency establishing approved F&A rates and applicable periods.

Record Retention: The requirement to maintain financial and programmatic records for a specified period in accordance with sponsor and regulatory requirements.

Restricted Funds: Funds received from external sponsors that must be used in accordance with specific terms and conditions.

Unallowable Costs: Costs that cannot be charged to a sponsored award based on federal regulations, sponsor restrictions, or University policy.

4.0 POLICIES AND PROCEDURES

The following procedures and control requirements govern the University's preparation, review, approval, reconciliation, documentation, and ongoing monitoring of sponsored awards at Tennessee State University. These requirements establish the minimum standards for adequate, financial compliance, supporting documentation, internal controls, and record retention in accordance with Uniform Guidance (2 CFR Part 200) and applicable sponsor terms and conditions.

All activities related to sponsored awards must be performed in a manner that ensures financial accuracy, regulatory compliance, and the availability of complete and verifiable supporting documentation for audit, monitoring, and oversight purposes.

A. F&A Cost Proposal Process

1. **Development of the F&A Cost Proposal:** The F&A Cost Proposal will be negotiated by an external consulting firm in accordance with federal cost principles outlined in Uniform Guidance (2 CFR Part 200). The proposal will incorporate all required cost data, allocation methodologies, and supporting documentation necessary to substantiate the proposed rates.
2. **Review and Approval:** The completed proposal will be reviewed by the Controller or designee for Business and Finance to ensure accuracy, completeness, and compliance with federal requirements. Upon satisfactory review, the proposal will be forwarded to the Vice President for Business and Finance for final approval prior to submission.
3. **Submission and Negotiation:** The approved proposal will be submitted to the U.S. Department of Health and Human Services (HHS), the University's cognizant agency, by December 31 of the year preceding the expiration of the current rate agreement. HHS will perform a desk audit and request additional information as necessary. The Vice President for Business and Finance, Vice President of Research and Sponsored Programs, and the Controller in coordination with the consulting firm, will participate in the negotiation process to establish on-campus and off-campus F&A rates and the applicable effective period. Upon completion of negotiations, HHS will issue an official Rate Agreement.
4. **Distribution of Approved Rates:** The finalized F&A rate agreement will be distributed to all Vice Presidents, Deans, and Department Heads by the Office of the Vice President for Business and Finance or designee. The approved rates will be implemented across all applicable sponsored projects according to the effective date of the approved agreement.
5. **Application and Recording of F&A Costs:** F&A costs will be reimbursed based on the approved rate agreement, subject to sponsor-specific limitations or approved institutional exceptions under a predetermined status. F&A costs will be automatically calculated on a transaction-by-transaction basis using system-configured base and rate parameters established at the time the fund is created. F&A costs will be recorded as an expense to

the respective restricted fund and recorded as revenue to the applicable unrestricted account. F&A and direct costs will be billed to sponsoring agencies in accordance with applicable University billing and reporting policies.

B. Alternate F&A Rate Status

In circumstances where the University's F&A rate proposal has not been finalized or a new Rate Agreement has not been issued prior to the expiration of the current approved rate agreement, the University may request or be placed under a provisional F&A rate status in accordance with federal requirements and guidance from the cognizant agency.

1. A provisional F&A rate is a temporary rate established to allow continued reimbursement of allowable F&A costs while the formal rate negotiation process is pending. The provisional rate will remain in effect until a final negotiated rate agreement is issued or until otherwise modified by the cognizant agency.
2. The Vice President for Business and Finance, in coordination with the appropriate University offices and consulting firm, will oversee communication and implementation of provisional rate requirements and ensure that all necessary documentation is maintained.
3. Grants Accounting will ensure that the provisional F&A rate is accurately established within the accounting system and applied consistently to applicable sponsored projects based on approved funding agency requirements and award terms.
4. Upon issuance of the final negotiated F&A rate agreement, Grants Accounting will evaluate the impact of any difference between the provisional and final negotiated rates. If required, adjustments will be processed in accordance with federal regulations, sponsor requirements, and University accounting procedures.
5. Supporting documentation related to provisional rate approval, implementation, rate changes, and any required adjustments must be maintained to support financial reporting, sponsor audits, and compliance reviews.

C. Internal Controls and Supporting Documentation

To ensure compliance, accuracy, and audit readiness the detailed supporting documentation for all components of the F&A cost proposal, including cost allocations, methodologies, assumptions, approvals, calculations, and financial postings will be maintained.

5.0 AUTHORITY AND REFERENCES

This policy is administered in accordance with applicable federal, sponsor, and University requirements governing sponsored award drawdowns, federal cash management, sponsored award financial administration, cost allowability, award-level documentation, and internal controls, including but not limited to:

a. 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;

b. 2 CFR § 200.302, Financial Management

c. 2 CFR § 200.303, Internal Controls

d. 2 CFR § 200.305, Federal Payment

e. 2 CFR § 200.403, Factors Affecting Allowability of Costs

f. 2 CFR § 200.405, Allocable Costs

g. Applicable sponsor terms and conditions

h. University policies and procedures governing sponsored awards, grants accounting, cost transfers, records retention, and financial management.

i. Applicable grant, contract, cooperative agreement, or award documents

6.0 HISTORY

Policy 5.11.09	Facilities and Administrative (Indirect) Cost	2015