#### F&A Fundamentals

ReDAC Meeting 3/13/19



#### Definition

 OMB Uniform Guidance (200.56) Definition of Indirect (facilities & administrative (F&A)) costs

"Indirect (F&A) costs means those costs incurred for a common or join purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. ..."



#### F&A Rate Development

- Rates are developed for an institution, not a project
- VCU develops the rate and submits it to our cognizant agency for negotiation
- Rates are developed based on actual expenses in prior years



#### F&A Rate Calculation

Research F&A Rate = Research Modified Total Direct

As the denominator gets bigger, our F&A rate lowers. This is why cost-sharing is discouraged; it negatively affects our F&A rate for future years.

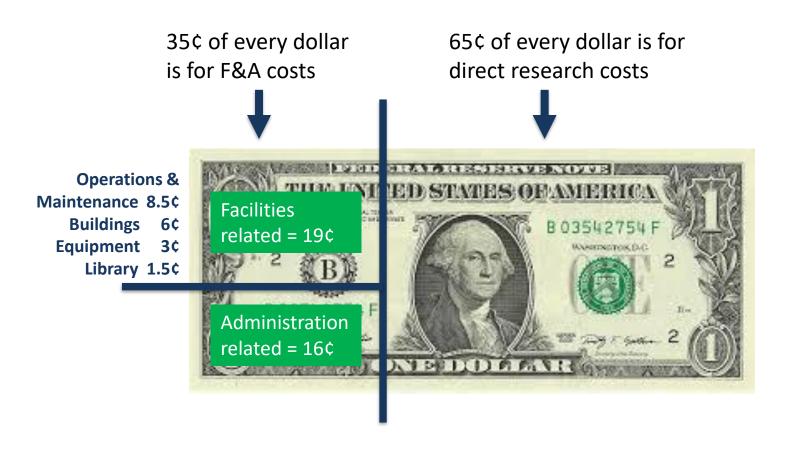
Costs (MTDC) + Cost Sharing



• Myth #1

F&A rates are so high. VCU's F&A rate is 55%. More than half of my budget goes to F&A costs!







• Myth #2

F&A costs are not real costs. They are profit that my institution uses to subsidize other activities (like education or athletics).



- F&A costs are real expenses incurred by the institution in support of sponsored projects.
  - Related to administrative management and to providing the facilities in which the project occurs
- F&A costs simply reimburse the institution for expenses already spent. They do not represent a "profit" for VCU.
- In developing our rates, only costs related to sponsored projects are included. We are prohibited from including any other expenses.



• Myth #3

F&A is so high because institutions hire more and more administrators. Institutions do this so that they can recover more F&A. What a counterproductive system; there is nothing that discourages excess spending!



- Facilities
  - Building Depreciation
  - Equipment Depreciation
  - Interest
  - Operations and Maintenance
  - Library

- Administrative
  - General Admin
  - Departmental Admin
  - Sponsored ProjectsAdmin
  - Student Admin and Services
- Capped at 26% (1991)
  - Only applicable to IHEs
  - Faculty Administration capped at 3.6% (1986)



- More administrators?
  - VCU exceeds the 26% cap, so changes in our administrative costs do not affect our F&A rate.
  - Institutions often do hire more administrators
    - Institution bears these costs aka "unfunded mandates"
  - Institutions subsidize every single project (even if "full" F&A is recovered).



• Myth #4

We can reduce F&A rates by reducing the regulations surrounding sponsored projects.



- Due to the 26% cap on Administrative costs, a reduction in regulatory burden will not have much of an impact on F&A rates.
  - VCU is well over the 26% cap and thus significant regulatory relief would have to occur for this to affect our rate.



# Questions?

