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 = \frac{F&A Costs}{\text{Research Modified Total Direct Costs (MTDC) + Cost Sharing}}

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.
F&A Myths

• 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!
F&A Myths – The Reality

35¢ of every dollar is for F&A costs

Operations & Maintenance 8.5¢
Buildings 6¢
Equipment 3¢
Library 1.5¢

65¢ of every dollar is for direct research costs

Facilities related = 19¢

Administration related = 16¢
F&A Myths

• 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 Myths – The Reality

• 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.
F&A Myths

• 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!
F&A Myths – The Reality

• Facilities
  – Building Depreciation
  – Equipment Depreciation
  – Interest
  – Operations and Maintenance
  – Library

• Administrative
  – General Admin
  – Departmental Admin
  – Sponsored Projects Admin
  – Student Admin and Services

• Capped at 26% (1991)
  – Only applicable to IHEs
  – Faculty Administration capped at 3.6% (1986)
F&A Myths – The Reality

• 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).
F&A Myths

• Myth #4

We can reduce F&A rates by reducing the regulations surrounding sponsored projects.
F&A Myths – The Reality

• 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.