Explanation of Facilities and Administrative Costs

What is “F&A?”

“F&A” stands for Facilities and Administrative costs. It is the current federal government, OMB Circular A-21, terminology for what was formerly known as indirect costs and applies to grants and contracts. Many also refer to this as “overhead.” Circular A-21 defines F&A as “costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.”

While some view F&A as a “tax” or “profit,” F&A costs are REAL costs incurred by the Institute in support of its missions, including research. In the case of F&A costs recovered from externally funded, organized research activities, the recoveries represent reimbursements for the additional operational costs required in order to conduct research activities on campus. Research activities are much more costly than instruction and public service activities, requiring advanced state-of-the art facilities and associated infrastructure costs.

The “facilities” components include the costs of utilities, depreciation on buildings, depreciation on capital equipment, maintenance and repair, and libraries. The “administrative” components include costs related to Human Resources, Payroll, Procurement, Office of Sponsored Programs, Grants and Contracts Accounting, Controller, the President’s Office, the Vice Presidents’ offices, the Deans’ offices, plus other support functions.

Universities are allowed to charge F&A to the sponsors of grants and contracts, using the F&A rate, in order to try to recover for the costs that have been incurred.

How is the F&A rate that is charged to grants and contracts calculated?

The Institute submits F&A rate proposals to the Office of Naval Research (ONR). The proposal is then audited by the Defense Contract Audit Agency (DCAA) based on Circular A-21 cost principles. The Institute and ONR negotiate F&A rates to be used over a period of years, based on the audited rate proposal report.

The negotiated F&A rates are to be used on most federal and industry grants and contracts. Other sponsors, including the State and private foundations, tend to limit, by their own policy, the F&A rate they are willing to pay. Federal training and fellowship grants, clinical trials and drug studies also limit the F&A rate.

An F&A rate is expressed as a percentage multiplied times the appropriate cost base on the grant or contract to determine the amount of F&A to be charged. The F&A is billed to the sponsor along with the other costs.

For example, if the salaries and fringe benefits on a grant are $90,000 and other direct costs are $10,000 and the F&A rate for this grant is 50%, then the charges to the grant will be:

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\text{salaries and fringe benefits of } $90,000 + \text{other direct costs } $10,000 = $100,000 \times 50\% = $50,000; \text{ for total charges of } $150,000.
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