Chapter 6
THE FACTS (NOT MYTHS)
FACT: #1 F&A COSTS ARE REAL COSTS OF RESEARCH

Myths

Myth #1a: The funds provided for direct costs cover all expenses connected with project activities. Payment for F&A cost is “extra” funding.

Myth #1b: F&A provides a way for institutions to cover costs unrelated to the sponsored project.

Facts

Direct costs can be assigned directly to a specific project or activity with a high degree of accuracy – e.g. salaries, supplies, equipment and travel.

F&A costs are reimbursed for actual expenses incurred - use of space, facilities, equipment and administrative services.

There is a federally prescribed methodology used to negotiate and assign a fair portion of allowable costs to research F&A.
FACT: #1 F&A COSTS ARE REAL COSTS OF RESEARCH

Myths

**Myth #1c:** F&A costs are like a tax which is levied by the institution to fund its overall activities and operations

**Myth #1d:** F&A received is funneled back to individual researchers and their departments for discretionary use

Facts

F&A reimbursement covers costs allocable to the sponsored activity, including facilities maintenance, utilities, disposal of research waste and administration.

Distribution of F&A reimbursement varies by institution but is based on costs previously incurred to support the sponsored activity. Once the institution is reimbursed for F&A costs, it may distribute the funds according to its policies.
FACT: #2 F&A COST REIMBURSEMENT IS NEITHER PROFIT NOR A TAX

Myths

Myth #2a: F&A includes actual costs plus a profit

Myth #2b: F&A is based on market factors

Myth #2c: F&A charges subsidize unrelated activities such as education, entertaining, or athletics

Facts

Federally negotiated F&A cost rates are based on actual allowable costs as defined in OMB Uniform Guidance. Profit is unallowable under these cost principles and cannot be charged.

F&A cost rates are based on actual expenses as reported in audited annual financial statements, which are reviewed and approved by a cognizant federal agency.

F&A cost rate charges reflect research-related costs only and rate calculations are prohibited from including any other expenses.
FACT #3: A 54% RATE DOES NOT EQUAL 54¢ OF THE DOLLAR TO F&A

Myth

Myth #3: An F&A cost rate of 54% means that over half of the funding goes to pay F&A costs with less than half available for direct costs.

Facts

F&A cost rates are applied to the Modified Total Direct Costs (MTDC) of a project, which results in F&A charges of no more than one-third of a project’s total costs.

Example: $100,000 is required to support a proposed project. Of which, $80,000 is MTDC (i.e. the F&A cost rate is applicable). The total budget is calculated as follows:

$80,000 (MTDC) x 54% = $43,200

$100,000 + 43,200 = $143,200 Total Project Costs

F&A = 30% of Total Project Costs
FACT #4: FLAT RATES ARE INEQUITABLE AND COULD CRIPPLE RESEARCH

Myth

Myth #4: The most equitable and efficient way to assign F&A cost rates would be to implement one rate for all institutions.

Fact

There are significant differences between institutions – e.g. geography, research infrastructure and research focus – producing varying rates.

Not all research costs the same to conduct; therefore, limiting an institution’s ability to fully recoup its costs will limit who is willing and able to conduct research.

Losing money on sponsored research is unsustainable for institutions and will disincentivize participation.
FACT #5: RESEARCHERS AND FACULTY BENEFIT FROM F&A ACTIVITIES

Myths

Myth #5a: F&A reimbursements only support the institution’s infrastructure, providing little benefit to scientific research.

Myth #5b: Reducing funding allocated to F&A would mean additional money for scientific endeavors.

Facts

F&A supports the space and infrastructure required to conduct cutting edge research. Researchers depend on and benefit greatly from institutional investments funded by F&A cost reimbursement.

F&A cost reimbursement supports critical functions supporting research, required through compliance regulations, and integral to an institution’s research mission (e.g. Human Research Protection Programs, Laboratory Animal Care, etc.)
FACT #6: INSTITUTIONS HAVE POWERFUL INCENTIVES TO CONTROL COSTS

Myths

Myth #6a: Institutions build new research facilities without risk because these facilities will be supported by the federal government via F&A reimbursements.

Myth #6b: Excessive administrative costs lead to increased F&A cost rates; therefore, the more an institution spends, the higher the rate of reimbursement.

Myth #6c: Institutions have no incentive to control costs, which results in extravagant research facilities.

Facts

Institutions must pay for buildings and facilities up-front with no guarantee that F&A cost reimbursements will cover these costs.

Reimbursement for administrative expenses is capped at 26%. Institutional costs that exceed this are not reimbursable and must be covered by the institution. Most research institutions exceed this administrative cap.

Institutions have every incentive to contain costs as they must pay the entire bill for construction and are reimbursed only when (if) federal research is conducted in the building.
FACT #7: INSTITUTIONS ARE MAJOR FINANCIAL CONTRIBUTORS TO RESEARCH

Myths

Myth #7a: F&A reimbursements cover all infrastructure costs for research operations.

Myth #7b: Increases in research support costs are covered dollar for dollar by the federal government.

Myth #7c: Institutions expect the federal government to cover all costs connected with sponsored research.

Facts

F&A cost reimbursement covers substantially less than the full cost of conducting research, with institutions subsidizing all federally sponsored research.

Institutions invest their own money to support infrastructure improvements which may be covered by future incremental rate increases.

The 2017 NSF Higher Education Research & Development Survey (HERD) showed an established and continuing trend of institutions increasing their contributions to research, both as a percentage and in actual dollars.
FACT #8: THE FEDERAL GOVERNMENT DOES NOT SUBSIDIZE OTHER FUNDERS

Myth

Myth #8: If a non-government sponsor caps its F&A reimbursement at 10%, the federal government is subsidizing the research.

Facts

Federal cost principles require that F&A costs are allocated fully and consistently to all benefitting activities, regardless of whether a sponsor fully reimburses the institution. This ensures that all research is costed consistently. If a sponsor under-reimburses F&A, the institution is subsidizing the work.

Non-federal sponsors often have special interests and operate under a different paradigm than federal agencies. F&A cost rate limitations often can be mitigated by greater latitude in direct charging allowable items.