First Principles Thinking: Actively questioning every assumption you think you “know” about a problem or scenario to create new knowledge and solutions from scratch.

**FIRST PRINCIPLE #2: F&A**

**Facilities and Administrative Costs**

- Understand the Fundamentals of F&A

**What is it?**

**DIRECT COSTS**

* GAP 200.320

**F&A COSTS**

* GAP 200.330

**What’s included?**

<table>
<thead>
<tr>
<th>Personnel &amp; Fringe (PI, Research Associates, Lab Techs, etc.)</th>
<th>Operations and Maintenance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment</td>
<td></td>
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<tr>
<td>Project Related Travel</td>
<td></td>
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<tr>
<td>Subcontract Costs</td>
<td></td>
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<tr>
<td>Project Related Materials and Supplies</td>
<td></td>
</tr>
</tbody>
</table>

**How is it calculated?**

Modified Total Direct Costs (MTDC) are that portion of total direct costs on which we are authorized to calculate the F&A costs for a sponsored project budget. This is the most common type of F&A Cost Base.

- Total Direct Costs minus exclusions = MTDC
- MTDC multiplied by F&A Rate = F&A Costs
- F&A Costs plus Total Direct Costs = Total Project Costs

Exclusions: capital expenditures including equipment, patient care, tuition, rental costs, participant support, scholarships & fellowships, and subawards >$25,000.
**First Principles Guide**

While Duke has several federally negotiated F&A rates based on type of project and location, other rates may apply depending on the circumstance (consider location, type of project, and sponsor guidelines).

**Know Your Rate**

- Organized Research:
  - On-Campus = 61%
  - Off-Campus (Adjacent) = 28.5%
    - **within 50 miles**
  - Off-Campus (Remote) = 26%
    - **outside 50 miles**

<table>
<thead>
<tr>
<th>Sponsor Limitations:</th>
<th>Some sponsors have published limits on their F&amp;A rates and will not accept our federally-negotiated rate; we must accept their rates or negotiate to receive their awards</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Other Sponsored Activities:”</td>
<td>A <em>federally negotiated</em> rate for activities that are not considered research or instruction. These activities mainly occur in a lower-cost setting.</td>
</tr>
<tr>
<td>Industry Sponsored Clinical Trials:</td>
<td>Rates for Industry Sponsored Clinical Trials may vary from above – see SOM F&amp;A Rate Guidelines on the F&amp;A page at finance.duke.edu</td>
</tr>
</tbody>
</table>

| **When Developing a Proposal:** Ask “Why are we accepting a X% F&A rate from this sponsor?” | Full F&A recovery goes toward supporting the Duke research mission. |
| **When Budgeting:** Ask “WHY is this expense direct or indirect?” and “Is this an unlike circumstance?” | Getting the budget right from the beginning is helpful later on when charging expenses. |
| **When Charging:** Ask “Is this an F&A cost and am I choosing the correct GL that draws F&A?” | Not all GLs draw F&A! Mistakes can happen so reconciliation is key. |
| **When Reconciling:** Ask “are charges posting to the correct GL to draw F&A or not?” | Know your F&A cost base (e.g. MTDC) and make any adjustments in a timely manner. |

Know the impact of incorrect F&A allocations: Charging expenses to the correct GLs is critical for F&A to post correctly. There is a financial impact to both the project and Duke.

For additional discussion around F&A, check out these learning opportunities:
- Research Administration Academy Core, Award and Project Setup, Financial Services Training (SAP, G/Ls, etc.)

*Rates for FY20: Always check the web for current rates.*
Conversations with your PI about F&A

Tools to explain F&A to your PIs

Bottom Line: F&A costs are reimbursement, not profit – and are essential for research.

Step 1: At the proposal stage have a discussion with your PI to understand what work is being done and where the work is occurring so the proposal and budget have the correct F&A rate built in (see: Know Your Rate section of F&A Guide).

Step 2: Know how to explain F&A to PIs who may question the rate, or ask for unnecessary waivers.

- The same negotiated rates apply to projects regardless of the funding amount received by the institution for a particular PI.
- F&A costs are real institutional costs that directly support the entire research portfolio across the university.
- F&A rates are calculated only on institutional costs that support research, and exclude unrelated administrative expenses.
- Unrecovered F&A that Duke must pay with University funds diverts support from other direct objectives that allow our researchers to do what they do best. It is integral to the ongoing mission at Duke to fully recover F&A when possible.
- Waivers of F&A are only allowable when the sponsor has a published restricted F&A rate.

Duke University contributes $125 million annually to cover overhead costs for sponsored research.

OR 26 cents of every research dollar

GAP 200.330

Research Costing Compliance – April 2019