

Direct Cost Policy

The purpose of this policy is to ensure compliance with the Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, and 48 Code of Federal Regulations (CFR) Part 9905, *Cost Accounting Standards for Educational Institutions*. Failure to adhere to these cost principles and practices may result in cost disallowance, penalties, and/or fines. This policy establishes consistent practices for defining and charging direct and indirect costs to university cost centers. It is the responsibility of Principal Investigators, Department Chairs/Heads, and Administrators to understand and comply with this policy.

Application:

These practices must be consistently applied in like circumstances for all sponsored projects and any other institutional activity affecting sponsored projects. While the Principal Investigator has primary responsibility for overseeing the expenditure of project funds, all personnel involved in charging costs to sponsored cost centers must comply with this policy in order to meet federal costing standards and ensure that costs are allocated in a manner that accurately reflects the expenses incurred for the benefit of the project.

Definitions:

Direct Cost - Those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity or that can be directly assigned to such activities relatively easily with a high degree of accuracy

Indirect Cost - Any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective.

Cost Objective - A function, organizational subdivision, sponsored agreement, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc. A cost objective can be any major function of the institution, e.g., a particular service or project, a sponsored agreement, or a F&A cost activity, as described in Section F. of OMB Circular A-21.

Intermediate Cost Objective - A cost objective that is used to accumulate indirect costs or service center costs that are subsequently allocated to one or more indirect cost pools and/or final cost objectives.

Federally Sponsored Activity – A sponsored activity that is supported in whole or in part with federal funds.

The following guidelines apply to federally sponsored activities and all cost objectives which affect federally sponsored activities, e.g., cost share, service or recharge centers, etc. Costs incurred for the same purpose, in similar circumstances, must be treated consistently as either a direct cost or an indirect cost across all functions and activities of the institution. If readily *documentable*, exceptional circumstances exist, it is allowable to charge a cost which is normally treated as an indirect cost directly to a project or other cost objective which affects a federally funded project.

Direct Costs

For expenditures to be considered allowable as a direct cost, they must be:

- reasonable and necessary for the performance of the project;
- allowable under the terms and conditions of the award document or agreement and by OMB Circular A-21; and
- allocable and easily identifiable as having a direct benefit to the project or activity being performed.

Costs that have been properly determined to be direct costs must be assigned or allocated based solely on the portion of the expense that represents the direct benefit to the project.

Examples of acceptable direct charging practices:

1. A technician performs duties which benefit two projects equally. The technician's salary is charged equally to each project during the period the work was performed.
2. Reagents are needed to process samples for two different projects. Project A has four (4) times as many samples to be processed as Project B. Eighty percent (80%) of the cost of the reagents is charged to Project A and twenty percent (20%) of the cost is charged to Project B.
3. Project A and Project B are closely related. Two substrates are needed for each project in approximately equal amounts and the cost of the substrates are approximately equal. One substrate is charged to Project A and one substrate to Project B.
4. Project A and Project B both require the use of a compressed gas in approximately equal amounts each month. A rotational schedule is established whereby the cost of the cylinders is alternately charged to each project on a monthly basis for the duration of the project overlap.

Examples of unacceptable direct charging practices:

1. Charging an expense exclusively to an award when the expense has supported more than one award.
2. Assigning charges to a project on the basis of the remaining balance to resolve funding problems.
3. Rotating charges among projects without establishing that the rotation schedule accurately reflects the relative benefit to each project during the specified period of time.
4. Charging the budgeted amount in contrast to charging an amount based upon actual benefit or use.
5. Assigning charges to an award before the cost is incurred.
6. Assigning charges that are part of the normal administrative support for awards (e.g. proposal preparation, accounting, payroll, routine preparation of purchase orders and vouchers).
7. Applying a "departmental tax" to projects for clerical, secretarial, and administrative costs.
8. Prorating costs for office supplies, telephone bills, photocopier usage, etc.
9. Charging costs incurred for multiple projects or functions to several sponsored projects when benefit of the cost to each sponsored project cannot be determined with relative ease and certainty.

10. Charging an expense to a project for the purpose of expending all remaining project funds.

Direct Charging of Costs Which Are Normally Treated as Indirect Costs

The nature of the activity and the project size, location, and complexity, while not the final determining factors, must be considered to determine when exceptions are justifiable. The existence of special circumstances must be evaluated on a case-by-case basis. It is the Principal Investigator's responsibility to determine that a change is necessary for the successful conduct of the project. If so, the cost should be documented and fully justified in the budget narrative at the proposal submission stage (if identifiable at that time). With regard to labor costs, completion of the RSSP Form ADMIN1, *Justification for Directly Charging Administrative and Clerical Salaries To Contracts, Grants and Cost Sharing Cost Centers* may be completed and submitted to RSSP with the proposal in lieu of justification via the budget narrative. If extenuating circumstances arise during the term of an existing award which makes a revision necessary, the principal investigator will be required to complete the RSSP Form ADMIN1. The Office of Research Support and Sponsored Programs (RSSP) will review the justification to verify whether or not the costs meet the conditions of this policy. In many cases, the terms and conditions of the award will require prior approval of the sponsor before implementing this change. In this event, RSSP will notify the investigator when sponsor approval has been given and the change may be implemented.

Non-Labor Costs

Non-labor costs such as general office supplies, postage, local telephone charges and photocopying are normally considered indirect costs. For the following, selected types of costs, independent and verifiable cost documentation must be maintained when directly charging to a federally sponsored project.

Postage

Costs incurred for postage for projects that require mass mailings or courier services where the costs are assigned with relative ease and with a high degree of accuracy to the project may be charged as direct costs. The costs of routine business correspondence must be treated as indirect costs. Departments should not apply an arbitrary "tax" or "fee" for routine postage costs to sponsored projects.

Recurring Phone Charges for Local Calls and Service (including installation and maintenance)

Routine phone charges are normally considered as indirect costs. Charges of this type (including instrument and line charges, and installation and removal charges) can be charged directly only when these costs are necessary for the performance of the project and are dedicated to a single project. Examples of federally sponsored projects where direct charging of recurring phone/local charges may be appropriate are for center awards and single projects heavily dependent upon phones. Long distance charges that can be specifically identified to an activity can be directly charged to project cost centers. Documentation of the charges should be maintained for audit purposes.

Photocopies

When the photocopy costs are project specific, significant, and necessary for the conduct of the scope of work, they can be charged to grants or contracts. A departmental log or some other defensible method to support these costs as direct costs must be maintained for audit purposes. Incidental photocopy costs generated in an amount and frequency common to most projects must be treated as indirect costs because of their general nature.

Books and Subscriptions

Ordinarily, books and subscriptions are allowable direct cost only when there is a unique, justifiable need. Off campus locations may be able to justify these costs because of their inability to access libraries and other departmental resources. Training grants may be able to justify the cost for trainees because of the nature of the project. Basic reference and text books and periodicals can rarely be adequately justified. Whenever possible, these items should be documented and fully justified in the budget narrative at the proposal submission stage. If extenuating circumstances arise during the term of an existing award which make this necessary, the RSSP will review the justification to verify whether or not the costs meet the conditions of this policy. In many cases, the terms and conditions of the award will require prior approval of the sponsor before implementing this change. In this event, RSSP will notify the investigator when sponsor approval has been given and the change may be implemented.

Service Centers and Department Recharge Centers

When developing a rate for services and/or supplies, units, organizations or departments that provide services predominately to colleges and departments, must accumulate and document their costs to operate the unit. When determining the charge (rate) for clients, especially those supported by federally sponsored projects, the unit must consistently treat costs as direct and indirect in like circumstances.

Departments should not create recharge cost centers such as secretarial support pools or photocopying centers to circumvent this policy. It is the responsibility of the Principal Investigator to justify the direct charge of goods and services provided by services units, shops, and department recharge centers to federally sponsored projects.

Labor Costs

Clerical and Administrative Personnel

Although it is recognized that there are differences in staffing among the various academic units, a core of clerical and administrative personnel exists within each department to support the various missions of the unit. These personnel provide a broad range of general support services, including secretarial assistance, the procurement of materials and services, accounting and bookkeeping, proposal preparation, payroll and human resource tasks. The costs of these activities should be recovered through indirect cost recoveries. Therefore, the salaries of personnel engaged in providing this type of basic service cannot normally be charged as direct costs to federally sponsored projects. However, clerical and administrative personnel may be considered as direct costs and appropriately charged to federally sponsored projects, or

institutional cost centers that charge federally sponsored projects such as Service Centers under the following circumstances:

1. Difference in nature of work performed (that is, apart from the normal duties)

When clerical and administrative employees are conducting more than the general business aspects of an award, for example devoting time to scientific purposes (i.e. coding, data input, etc.), their time may be charged as a direct cost and identified as such in the proposal. Since the characteristic of the work performed is functionally different from the general business activities of clerical and administrative personnel and/or the work performed is related to the technical activities of the project, direct charging of these salaries/wages is an acceptable practice.

2. Joint consideration of size, nature and complexity of activity

Size, nature and complexity of the project or activity, although not the final determining factors, are important considerations in determining whether clerical and administrative services should be charged as direct costs. When an individual's effort goes well beyond the normal clerical and administrative support of general departmental functions and can be specifically identified with the project or activity with relative ease, these costs may be charged as direct costs. Such projects include, but are not limited to, multidisciplinary awards, programmatic awards, center awards, projects involving extensive data collection and surveys, international projects, and projects at remote locations.

All federally sponsored projects require budget justification for these costs. The administrative or clerical services related specifically to the technical substance of the project must be justified and described in the proposal budget justification or the narrative as technical functions instead of normal clerical functions.

Non-federally Sponsored Activities

The direct charging of items normally considered indirect costs cannot be used in lieu of or to reduce indirect cost recovery at the appropriate, negotiated indirect cost rate. When a non-federal sponsor, subject to the full indirect cost rate, has no objections, items usually treated as indirect costs may be charged directly. Where a non-federal sponsor consistently and universally limits indirect cost recovery to a rate less than the applicable negotiated rate, items normally treated as indirect costs may be charged as direct costs. The proposal budget should contain the degree of detail required by the sponsor to identify the cost items. Under these two circumstances no justification is needed for either the proposal or award budget.

Care must be taken to differentiate between federally and non-federally sponsored activities. State, county and municipal sponsors often use federal funds to support sponsored activities. This is also true of some social service and philanthropic organizations. The fact that the University's direct sponsor is not a federal entity does not eliminate that possibility that the funds for the project may originate with a federal agency. Where there is any doubt about the ultimate source of the funds, the project shall be managed as if the prime sponsor were a federal entity. Where there is cost share for a project which is federally funded, the cost share funds shall also be subject to this policy.

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