

**Financial Policy & Procedure Instructions Manual
FPI D-7 Assignment of Costs as Direct or Indirect**

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I. PURPOSE

To provide guidance to University staff to assure compliance with Federal regulations which require that the same types of costs be treated consistently as either direct costs or indirect costs.

II. AUTHORITY

- A. **OMB Circular A-21**, Cost Principles for Educational Institutions, Sections D.1. and F.6.b., require that costs incurred for the same purpose in like circumstances be treated consistently as either direct or indirect costs. Departmental costs specifically identified as normally indirect are administrative/clerical salaries, office supplies, postage, local telephone service, and memberships.
- B. **Cost Accounting Standard 502**, Consistency in Allocating Costs Incurred for the Same Purpose, also requires that costs incurred for the same purpose in like circumstances be treated consistently as either direct or indirect. This standard is incorporated into Circular A-21 and applies to all types of federally sponsored agreements (grants, contracts, and cooperative agreements).

III. APPLICABILITY

- A. The requirement to adhere to CAS 502, Consistency in Allocating Costs Incurred for the Same Purpose, applies to all activities of the University.
- B. These policies apply to all federal sponsored activities, including any costs contributed by the University through cost share accounts. The policies and procedures apply to direct federal awards received by the University as well as subawards the University receives under federal awards to other organizations (including State agencies).
- C. For non-federal sponsored activities, the costs discussed in this procedure as normal indirect costs may be charged as direct costs to the extent permitted by the sponsor's policies or approved by the sponsor. This will result in a technical violation of the cost accounting standard of consistency, but with no adverse effect.

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IV. RESPONSIBILITY

The University relies on the judgment of principal investigators and other responsible officials to determine whether special circumstances exist for a particular project that would justify direct charges for costs that are normally indirect. The direct charges must be fully justified to sponsoring agencies in grant applications and contract proposals. If the sponsoring agency accepts the cost as part of the direct project budget (i.e., does not specifically disapprove the item in the award or other notification to the University), then the University will consider the cost an appropriate direct cost of the project.

If the sponsoring agency specifically disapproves the cost, the University will rely on the sponsoring agency's judgment that the cost did not meet the criteria for direct charging and will treat the cost as an indirect cost, unless circumstances arise at a later date that justify direct charging of the costs.

V. DEFINITIONS

- A. **Direct Costs** (A-21, Section D.1.) are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity that can be directly assigned to such activities relatively easily with a high degree of accuracy.
- B. **Indirect Costs** (A-21, Section E.1.) are those 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.

VI. CONSISTENT TREATMENT OF COSTS

Consistent treatment of costs is a basic cost accounting principle and is specifically required by Circular A-21 to assure that the same types of costs are not charged to federally sponsored agreements both as direct costs and as indirect costs. This concept is reinforced and emphasized in Cost Accounting Standard 502.

Consistency in this context means that costs incurred for the same purpose, in like circumstances, must be treated uniformly as either direct costs or as indirect costs. Thus, since certain types of costs, such as the salaries of administrative and clerical staff, office supplies, and postage are normally treated as indirect costs, the same types of costs cannot be charged directly to federally sponsored agreements, unless the circumstances related to a particular project are clearly different from the normal operations of the institution. For example, although postage is normally treated as an indirect cost, a particular project may have a special need for postage because of the mailing of hundreds of survey questionnaires. In this case, it would be appropriate to charge the project directly for the postage to mail the questionnaires, since this would constitute "unlike circumstances" compared to routine postage requirements.

VII. ASSIGNMENT OF COSTS

A. Normal Direct Costs

The following types of costs should be directly charged to sponsored agreements where they can be specifically identified to the work performed under the agreements.

- 1. Salaries, Wages and Fringe Benefits
 - a. Faculty
 - b. Professional Staff (e.g., Research Associates or Scientists)
 - c. Postdoctoral Fellows

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- d. Technicians
- e. Lab Assistants
- f. Students performing scientific or technical work
2. Materials and Supplies
 - a. Chemicals
 - b. Glassware
 - c. Compressed gases and liquids
 - d. Computer Software
3. Other Direct Costs
 - a. Travel
 - b. Consulting Services
 - c. Printing
 - d. Equipment (specialized scientific equipment)
 - e. Long distance telephone charges
 - f. Subawards

B. Normal Indirect Costs

1. Administrative and clerical salaries and associated fringe benefits
2. Office supplies
3. Postage
4. Local telephone services
5. Memberships
6. Subscriptions

VIII. CRITERIA FOR DIRECT CHARGING NORMAL INDIRECT COSTS

Administrative and clerical salaries and associated fringe benefits, under OMB Circular A-21, Section F.6.b., as cited in II above, are a normal indirect cost which may be charged directly only under exceptional circumstances. In July 1994 OMB issued the following guidance on defining the circumstances under which these salaries may be charged directly to Federal sponsored agreements:

This provision is intended to establish the principle that the salaries of administrative and clerical staff should usually be treated as indirect costs, but that direct charging of these costs may be appropriate where the nature of the work performed under a particular project requires an extensive amount of administrative or clerical support which is significantly greater than the routine level of such services provided by academic departments. The costs would need to meet the general criteria for direct charging in Section D.1. - i.e., "be identified specifically with a particular sponsored project...relatively easily with a high degree of accuracy," and the special circumstances requiring direct charging of the services would need to be justified to the satisfaction of the awarding agency in the grant application or contract proposal.

The following examples are illustrative of circumstances where direct charging the salaries of administrative or clerical staff may be appropriate.

- *Large, complex programs, such as General Clinical Research Centers, Primate Centers, Program Projects, environmental research centers, engineering research centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.*
- *Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting, such as epidemiological studies, clinical trails, and retrospective clinical records studies.*

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- *Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.*
- *Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).*
- *Projects that are geographically inaccessible to normal departmental administrative services, such as seagoing research vessels, radio astronomy projects, and other research field sites that are remote from the campus.*
- *Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocol, IRB preparations and/or other project-specific regulatory protocols; and multiple project-related investigator coordination and communications.*

These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples. Where direct charges for administrative and clerical salaries are made, care must be exercised to assure that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities.

Other normal indirect costs are office supplies, postage, local telephone services, memberships, and subscriptions.

IX. POLICY

- **Administrative and clerical salaries** and associated fringe benefits may be charged directly only if they meet all of the following conditions:
 0. They fall within the special circumstances described in the OMB guidance above;
 1. The individuals have responsibilities specifically related to the work of the project and the effort devoted to the project is documented in the University's activity reporting system;
 2. The title(s), percent of effort, and salary amount(s) for the clerical or administrative position(s) are included in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging of the services are justified in the proposal; and
 3. The sponsoring agency accepts the cost as part of the project's direct cost budget (i.e., does not specifically disapprove the cost in the award or other notification to the University.)

If, during the performance of a project, a principal investigator identifies an extraordinary need for administrative or clerical assistance which was not included in the approved budget of the sponsored agreement, the administrative or clerical salary and fringe benefits may be direct charged, provided all of the following conditions are met:

4. The sponsor's written policy provides for such budget revisions;
5. The salary meets the conditions in Sections VIII and IX.A. 1 and 2 above;
6. The charge is supported by a written justification that provides the same information that would have been provided to the sponsoring agency in the proposed project budget, and includes an explanation of why the salary was not in the original budget submitted to the sponsoring agency.
7. The charge is approved by Sponsored Programs. Approval of these requests will be given if Sponsored Programs is satisfied that the

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sponsoring agency would have approved the cost had it been in the original budget.

- A. **Other normal indirect costs** are defined in Section VIII above. The following examples are illustrative of circumstances where direct charging of these costs may be appropriate; they are not exhaustive nor are they intended to imply that direct charging of these costs would always be appropriate for the situations illustrated in the examples.
- Unusually large mailings, e.g., for surveys, conferences, or workshops
 - Dedicated telephone line for computer link, for conducting surveys, receiving data from other sites, etc.
 - Mailing of specialized materials, e.g., tissue cultures, etc.
 - Subscriptions needed specifically for the research project which are not otherwise available in the University or college library or within the department.

These costs may be directly charged only where they meet all of the following requirements:

4. The project has a special need for the item or service that is beyond the level of services normally provided.
5. The cost can be specifically identified to the work conducted under the project and is appropriately documented.
6. The cost is specified in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal.
7. The sponsoring agency accepts the cost as part of the project's direct cost budget (i.e., does not specifically disapprove the cost in the award or other notification to the University).

If, during the performance of a project, a principal investigator identifies an extraordinary need for office supplies, postage, local telephone services, memberships, or subscriptions which was not included in the approved budget of the sponsored agreement, such costs may be direct charged, provided all of the following conditions are met:

8. The sponsor's written policy provides for such budget revisions;
9. The cost meets the conditions in IX above;
10. The charge is supported by a written justification that provides the same information that would have been provided to the sponsoring agency in the proposed project budget, and includes an explanation of why the cost was not in the original budget submitted to the agency.
11. The charge is approved by Sponsored Programs. Approval of these requests will be given if Sponsored Programs is satisfied that the sponsoring agency would have approved the cost had it been in the original budget

X. **COOPERATIVE AGREEMENTS**

Cooperative Agreements with federal agencies vary widely as to the costs to be provided by each of the cooperators. Some agreements will meet the criteria for direct charging of costs that are normally indirect as described in the OMB interpretation and others will not. The principal investigator will need to work closely with Sponsored Programs as such agreements are drafted to ensure that the arrangements will be consistent with these requirements.

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Effective date: Budget periods beginning on or after January 1, 1998.