



OFFICE OF SPONSORED PROGRAMS

CHARLES R. DREW UNIVERSITY OF MEDICINE & SCIENCE

Direct Costing on Sponsored Projects

As of December 26, 2014, new awards made by federal agencies are subject to the Office of Management and Budget (OMB) Uniform Guidance (2 CFR Part 200) and to related specific agency policy guides. Awards made prior to December 26, 2014 may be subject to OMB Circular A-21, or may incorporate elements of both requirements.

I. GENERAL

In accepting federal funds for sponsored projects (grants, contracts, and other types of assistance agreements) CDU agrees to abide by government regulations regarding the use of those funds. Code of Federal Regulations 2 CFR Part 200 (formerly Office of Management and Budget Circular A-21) sets forth general criteria for determining the allowability of direct costs on government sponsored projects at educational institutions. Many government agencies publish additional cost guidelines specific to those agencies, and familiarity with such regulations is also necessary.

Although generally not as stringent as government requirements, non-governmental agencies may also have cost guidelines with which CDU faculty, and grant administrators should be familiar. These requirements are also binding as a condition of award, and must be followed throughout the life cycle of the funded project.

This document summarizes pertinent overall government regulations and CDU practices used to determine whether or not a particular cost item would be considered an allowable direct cost for budgeting and/or charging on a government sponsored project. Auditors may use the same guidelines when conducting audits of externally sponsored projects awarded to CDU.

II. DIRECT COSTS: DEFINITION AND SUMMARY OF CRITERIA

Government Definition of Direct Costs:

Direct costs are those costs that can be identified specifically with a particular sponsored project, or that can be directly assigned to such activity relatively easily with a high degree of accuracy. Direct costs items should be necessary and essential for project success. The items and/or services charged must reflect the amount that a reasonable person would pay, and must be directly allocable to the needs and purposes of the project.

III. Allowability Criteria

Summary of Criteria for Determining Allowability of Direct Cost

For purposes of determining whether it would be appropriate to budget or charge a certain direct cost to a sponsored project, principal investigators, and grant administrators should be familiar with the criteria used to define *allowable direct costs*. They are:

1. Be necessary and reasonable for the performance of the federal award. The cost/item must be necessary to the conduct of the project. For example, a more expensive item may not be necessary if a less expensive item will meet the needs of the project.
2. Be allocable to the project and project goals.
3. Conform to any limitations or exclusions in the Uniform Guidance/A-21 or in the federal award.
4. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of Duke University.
5. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.
6. Be determined in accordance with generally accepted accounting principles (GAAP)
7. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.
8. Be adequately documented.

If **sponsor funds are available**, appropriate direct cost items should be charged to the appropriate sponsored activity fund code. If sponsor funds are **not** available and it is determined that the scope of work of the project cannot be modified to eliminate the need for the item, then the direct cost item should be charged to an appropriate cost-share account (note: internal approvals for cost sharing may be required) and reflected as a cost of the project, but one borne by CDU. Please note that costs reflected as cost share must meet the same allowability standards as costs directly charged to a federal fund code.

Clarification of Direct Costing Criteria

A. Allowability

Section J of 2 CFR, Part 220 (formerly [OMB Circular A-21](#)) AND Subpart E of 2 CFR Part 200 (known as the Uniform Guidance) provides a detailed listing of costs that may be charged to federal awards (with the disclaimer that these costs must not be deemed unallowable under a specific award notice from the federal sponsor. Typically, the following costs meet the standard of allowability. For general reference purposes, [Section J of Circular A-21](#) and [Subpart E of the Uniform Guidance](#) provide descriptive listings on generally allowable costs. Federal sponsors may also provide additional guidelines on allowable costs. For example, the [National Institutes of Health \(NIH\)](#) along with other federal agencies, each have their own guidelines. Non-federal sponsors most likely will have their own unique guidance on allowable direct costs, and should be referred to as applicable to the project.

Please keep in mind that these costs must be necessary to perform the project's stated scope of work.

Typically allowable as direct costs:

- Salaries and fringe benefits of faculty, technicians, post docs, graduate research assistants and other personnel **directly engaged in performing sponsored project's scope of work**
- Laboratory supplies and materials **necessary for performing sponsored project's scope of work**
- Other costs such as travel, subcontracts, scientific/specialty equipment repairs and maintenance, long distance telephone expenses, and other directly related costs **necessary for performing sponsored project's specific scope of work**
- Capital equipment that is approved by the sponsor (or internally approved if allowed by the sponsor)
- Service/maintenance agreements on capital equipment approved by the sponsor (or internally approved if allowed by the sponsor)
- **Identification with the sponsored work (i.e., the scope of work) rather than the nature of the goods or services is the determining factor in determining direct costs.**

B. Allocability

A cost is allocable to a federally sponsored agreement if:

1. It is incurred solely to advance the work under the sponsored agreement; or
1. It benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods. Costs that can be identified specifically with a particular sponsored project, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.
2. **Exception to General Allocability Rule:**

Cost Benefits Two or More Projects

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefited projects on any reasonable basis. However, this allocation cannot be used to eliminate cost overruns.

C. Reasonableness

A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are:

1. Whether or not the cost is of a type generally recognized as necessary for the performance of the sponsored agreement;
2. The restraints or requirements imposed by such factors as arm's-length bargaining, federal and state laws and regulations, and sponsored agreement terms and conditions;
3. Whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the federal government, and the public at large; and,
4. The extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

D. Consistency

Consistency means that CDU manages costs that are reimbursable by the federal government in two ways:

1. Those that are allowable to be *directly charged* to a sponsored project (identified specifically with a particular sponsored project, or that can be directly assigned to such activity relatively easily with a high degree of accuracy) such as a Principal Investigator's salary or a project-specific piece of equipment.
2. Those that are allowable to be included in the University's negotiated Facilities and Administrative (F&A) base, which includes broad categories of costs that support sponsored research but cannot be clearly identified with a specific project or program. Examples include use of facilities, department basic costs of operations (paper, copying, staff support, etc.)

Because CDU receives federal reimbursement for both direct costs associated with a single project, and for F&A costs through its negotiated F&A rate, steps are taken to ensure that all costs are treated and billed consistently. In other words, not billed directly and also billed through F&A recovery.

Costs normally charged as F&A:

- Salaries of clerical and administrative personnel engaged in routine departmental or administrative work that benefits all activities of the department (instruction, research, training, public service, etc.), i.e., **there is no direct relationship to a specific sponsored project's scope of work.**

- Supplies and materials for routine departmental or administrative activities of the department that benefit all activities of the department (instruction, research, training, public service, etc.), i.e., **there is no direct relationship to a specific sponsored project's scope of work.**
- Other costs such as travel, repairs, fees and services, local and long distance telephone expenses, copying and postage that are for routine departmental or administrative use, **and do not have a direct relationship to a specific sponsored project's scope of work.**
- General office items with multi-functional use such as computers, fax machines, answering machines, staplers, hole punches, filing cabinets, chairs, desks, calculators, waste baskets, etc.), **that do not have a direct relationship to a specific sponsored project's scope of work.**

Justification and approval required in proposals that budget certain costs as direct costs:

For the following cost items (and for any others that a layperson may consider routine and administrative in nature), specific written justification as to the relationship between the cost and the proposed project's scope of work should be completed as a part of the proposal's budget narrative and submitted to OSP as a part of the proposal to the sponsoring agency.

The documentation should explain the direct benefit relationship between these cost items and the proposed scope of work. OSP may notify the PI that these costs have been included in the budget and that a formal internal exception and approval process will be required if the project is funded.

E. Allowable Rates of Pay for Faculty

Salary rates for faculty members.

1. *Salary rates for academic year.* Charges for work performed on sponsored agreements by faculty members during the academic year will be based on the individual faculty member's regular compensation for the continuous period which, under the policy of the institution concerned, constitutes the basis of his salary. Charges for work performed on sponsored agreements during all or any portion of such period are allowable at the base salary rate. In no event will charges to sponsored agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period. This principle applies to all members of the faculty at an institution.
2. Periods outside the academic year.
3. Part-time faculty. Charges for work performed on sponsored agreements by faculty members having only part-time appointments will be determined at a rate not in excess of that regularly paid for the part-time assignments. For example, an institution pays \$5000 to a faculty member for half-time teaching during the academic year. He devoted

one-half of his remaining time to a sponsored agreement. Thus, his additional compensation, chargeable by the institution to the agreement, would be one-half of \$5000, or \$2500.

F. Selected Items of Costs

The basic cost principles must always be applied when identifying cost allowability. All costs must be reasonable, allocable, necessary, and consistently treated both directly and indirectly (e.g., following the campus F&A Rate Proposal), as well as be allowable on federal awards under the Uniform Guidance. The Uniform Guidance calls out 55 specific cost categories in sections §200.420 – 200.475. If the specific cost is not on the list, by identifying a similar cost, you can determine if your expense is allowable. Generally unallowable costs are also specifically identified in this section. <https://www.gpo.gov/fdsys/granule/CFR-2012-title2-vol1/CFR-2012-title2-vol1-part230-appB>

G. Availability of Funds

If sponsor funds are available, appropriate direct cost items should be charged to sponsor funds in accordance with the account coding instructions in section IV.

If funds are NOT available and it is determined that the scope of work of the sponsored project cannot be modified to eliminate the need for the item, then the direct cost item should be charged to an appropriate cost share account and reflected as a cost of the project, but one borne by CDU.

IV. PROPER CODING

Why the emphasis on proper account coding?

One of the elements most critical to successful financial administration of sponsored projects is the assignment of appropriate accounts to budget line items and expense transactions, for the following reasons.

1. Miscoded expenses can result in incorrect F&A cost charges. *The coding determines whether or not the cost will be included in "modified total direct cost" and therefore subject to F&A or indirect cost.*
2. Failure to identify capital equipment purchases can result in noncompliance with internal and external property management regulations. *Federal regulations require that all capital equipment purchases be added to the central inventory system. The account used on the capital equipment requisition is one method used by accounting to identify capital equipment purchases to be added to central inventories.*
3. Errors in account coding can result in inappropriate conclusions by the principal investigator and/or sponsor regarding financial status.
4. Improperly coded expenses can result in inappropriate conclusions by auditors and can adversely impact CDU's ability to effectively monitor for compliance with federal regulations

regarding allowability. *In an internal or external review or audit, the account determines the type of review or audit procedure to which the expense is subjected, and whether the expense is viewed initially as allowable or unallowable.*

5. The account distinguishes between costs funded by the agency and those cost-shared by CDU. Failure to use a cost sharing account on cost-shared expenditures will understate CDU's contribution to the project.

V. ADDITIONAL INFORMATION

A. Inappropriate Practices

The following examples are not all-inclusive. They are intended to be illustrative of certain practices that can result in direct cost disallowance during audits of sponsored agreements.

1. Purchasing goods, supplies, or equipment at the end of the project simply to use up unspent funds. [For example, the Public Health Service Grants Policy Statement, section 8-16 states that "If for any reason equipment that has been ordered in good faith will not be received until after a project has terminated or will be received too late in the project for effective use, all reasonable effort must be made to cancel the order or to charge the equipment to other funds."]
2. Charging 100% of a direct cost item to a sponsored project if part of the item will be used by other projects or non-sponsored activities [capital equipment **approved by the sponsor** (or approved internally if allowed by the sponsor) is excluded from this requirement].
3. Replenishing departmental office supplies with grant funds.
4. "Rotating" charges among sponsored projects by month without establishing that the rotation schedule credibly reflects the relative benefit to each grant.
5. Assigning charges to the sponsored project with the largest remaining balance.
6. Identifying a cost as something other than what it actually is by using an incorrect account code.

In order to be allowable, direct charges must be assignable to a sponsored project "in accordance with benefits received". If the sponsored project could not have reasonably benefited from the items purchased, then the cost would not be allocable to the sponsored project.

B. OMB Guidance on Treatment of Administrative and Clerical Salaries

It is the policy of CDU that the salaries of administrative and clerical staff contributing to the performance of a sponsored project should normally be treated as indirect (F&A) costs. However, unless otherwise restricted by agency or program guidelines, charging these salaries as direct costs may be appropriate if all of the following conditions are met:

- The administrative and clerical services are integral to the performance of the sponsored project or activity;
- Individuals performing administrative and clerical services are specifically identified with the sponsored project or activity;
- Salaries for the administrative and clerical personnel are explicitly included in the project budget or have prior written approval of the awarding agency; and
- The administrative and clerical salaries are not also recovered as an indirect cost. The University accounting system ensures that expenses are not recovered as both direct and indirect cost.

[Reference: 2 CFR Part 200.413(c)]

What is the intent of this provision and under what circumstances may these costs be directly charged to sponsored agreements?

Answer

This provision is intended to establish the principle that the salaries of administrative and clerical staff should usually be treated as F&A 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 2 CFR Part 200.413(c) - 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 trials, and retrospective clinical records studies.
- 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.