DIRECT AND INDIRECT COSTS OF SPONSORED AGREEMENTS
(Grants, Contracts, and Other Agreements)
Effective: June 1, 2000
Approved By: Vice President for Research
Contact: Director, Sponsored Projects Services

I. Purpose
Federal regulations (OMB Circular A-21 and the Federal Cost Accounting Standards) require that the same type of costs be treated consistently as direct or indirect costs.

This policy statement provides guidance to University staff to assure compliance with the Federal requirements.

II. Applicability
This policy applies to all Federal and non-federal sponsored agreements (grants, contracts, and other agreements). However, costs normally treated as indirect, such as administrative/clerical salaries, may be charged directly to non-federal sponsored agreements if permitted by the sponsor.

III. Effective Date
This policy is effective on June 1, 2000. The policy applies to all costs incurred on or after that date.

IV. Definitions
OMB Circular A-21 provides the following definitions of Direct and Indirect Costs (Facilities and Administrative Costs)

Direct Costs
- 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 activities relatively easily with a high degree of accuracy.
  (OMB Circular A-21, Section D.1.)

Indirect Costs (Facilities and Administrative Costs)
- Costs 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.
  (OMB Circular A-21, Section E.1.)

V. Consistent Treatment of Costs
Consistent treatment of costs is a basic cost accounting principle and is specifically required by OMB Circular A-21 to assure that the same type of costs are not charged to Federally sponsored agreements both as direct costs and as indirect costs. This concept is reinforced and emphasized in a Cost Accounting Standard (referred to as "CAS 502") that educational institutions are required to follow.
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/clerical staff, office supplies, and postage are normally treated as indirect costs, the same types of costs cannot be charged directly to 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.

VI. 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.

- Salaries, Wages, Fringe Benefits
  - Faculty
  - Research Associates
  - Postdoctoral Fellows
  - Lab Assistants
- Materials and Supplies
  - Chemicals
  - Glassware
  - Compressed Gases and Liquids
- Other Direct Costs
  - Travel
  - Consulting Services
  - Printing/Photocopying
  - Equipment
  - Long Distance Telephone Charges
  - Engineers
  - Scientific Professionals
  - Technicians
  - Students Performing Scientific or Technical Work
  - Computer Software and Supplies
  - Research Supplies
  - Subject/Participant Costs
  - Student Support (training grants)
  - Animal Care
  - Sub-Awards

VII. Normal Indirect Costs

Administrative/Clerical Salaries and Fringe Benefits (ERE)

1. As required by Circular A-21, the salaries of administrative/clerical staff shall normally be treated as indirect costs. They may be charged directly only under exceptional circumstances. (OMB Circular A-21, Section F.6.b)

2. Direct charging of administrative/clerical salaries may be appropriate where a major project explicitly budgets for administrative/clerical services and the individuals involved can be specifically identified to the project. Circular A-21 defines "major project" as a project that requires an extensive amount of administrative/clerical support which is significantly greater than the routine level of such services provided by academic departments.
3. Examples of "major project" where direct charging of administrative/clerical staff salaries may be appropriate are given in Exhibit C of OMB Circular A-21, as listed below. These examples are not exhaustive nor are they intended to imply that direct charging of administrative costs would always be appropriate for the situations illustrated in the examples.

- 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 that 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 geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research field sites that are remote from campus.

- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communications.

- Institutional allowance for training grants (example added by University)

4. "Major projects" do not have carte blanche approval for charging administrative costs. Administrative/clerical salaries may be charged directly to the agreement only if they meet all of the following conditions:

- They fall within the special circumstances described in Circular A-21.

- The individuals have responsibilities specifically related to the work of the project and the effort devoted to the project is documented and certified in the University’s payroll system.

- The title(s), percent of effort, and salary amount(s) for the administrative/clerical 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. A designated official in the academic unit will review the proposal for appropriateness of the administrative/clerical salaries. Department head approval on the University’s proposal routing sheet will serve as documentation that this review has taken place.
• 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). For programs that do not require submission of a project budget to the sponsoring agency, e.g., NIH modular grants, the cost must be justified and approved by a designated official in the academic unit. A copy of the approved justification should be forwarded to Sponsored Projects Services with the proposal.

5. If an administrative/clerical salary meets the first two (2) conditions as listed in item 4 above but was not included in the approved budget of the sponsored agreement, the salary may be charged directly to the agreement only where the University has rebudgeting authority under Federal regulations or the terms of the sponsored agreement (please see specific award document or contact Sponsored Projects Services for rebudgeting requirements). The rebudgeting request must be in writing and the justification must include the same information that would have been provided in the proposed project budget and must explain why the salary was not in the original budget. A designated official in the academic unit will approve these requests if the designated official is satisfied that the costs are appropriate and that the sponsoring agency would have approved the cost had it been in the original budget.

Other Normal Indirect Costs

1. The following costs are normally indirect. They may be charged directly only under special circumstances:
   • Office Supplies
   • Postage
   • Local Telephone Services
   • Memberships

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

• The project has a special need for the item or service that is beyond the level of services normally provided by departmental administration.
• The cost can be specifically identified to the technical scope of work conducted under the project and is appropriately documented.
• The cost is specified in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal.
• 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). For programs that do not require submission of a project budget to the sponsoring agency, e.g., NIH modular grants, the cost must be justified and approved by the designated official of the academic unit. A copy of the approved justification should be forwarded to Sponsored Projects Services with the proposal.

If the cost meets the first two (2) conditions listed in item 2, above, but was not included in the approved budget of the sponsored agreement,
• It may be charged directly to the agreement only where the University has rebudgeting authority under federal regulations or the terms of the sponsored agreement (please see specific award document or contact Sponsored Projects Services for rebudgeting requirements).
• The rebudgeting request must be in writing and the justification must include the same information that would have been provided in the proposed project budget and must explain why the cost was not in the original budget.
• The designated official of the academic unit will approve these requests if the designated official is satisfied that the costs are appropriate and that the sponsoring agency would have approved the cost had it been in the original proposal.

Examples of "unlike circumstances" where the costs may be directly charged to the agreement are:
• membership fee required in order to attend a conference, where the conference is part of the agreement
• membership fee required in order to subscribe to a journal, where the subscription is necessary for the agreement
• postage for reprints, only in unusual circumstances, e.g., very large volume of reprints
• express mail
• shipping costs
• lab notebooks, pens, and other office-type supplies stored and used only in the laboratory or field for the technical work

VIII. Quality Control Assurance Program

1. Administrative/Clerical Salaries and Fringe Benefits
   Sponsored Projects Services will periodically review all administrative/clerical salaries charged to Federal agreements. Charges will be transferred to departmental funds if not supported by an approved budget and adequate budget justification. In cases where the administrative/clerical salaries are not included in the approved budget, charges will be transferred to departmental funds if not subsequently supported by an adequate justification and approval by the designated official of the academic unit.

2. Other Normal Indirect Costs
   Sponsored Projects Services will periodically select a judgment sample of transactions charged to Federal agreements for postage, memberships, local telephone, and office supplies. Charges will be transferred to departmental funds if not supported by an approved budget and adequate budget justification. In cases where the other normal indirect costs are not included in the approved budget, charges will be transferred to departmental funds if not subsequently supported by an adequate justification and approval by the designated official of the academic unit.

Contact:

If you have any questions about this policy, how to treat a specific cost, or need information, please contact your Sponsored Projects Services fund accountant at 626-6000.
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