Yeshiva University
Grant Accounting

2.1A– Direct Cost Guidelines for Sponsored Projects

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This document will assist with the understanding of direct costs and indirect costs, the procedures and the appropriateness of charging these costs to sponsored projects as principal investigators with the assistance of department administrators.

I. Preparing a Proposal and Its Budget

A. Locate an opportunity and review its requirements

B. List personnel and other things that will be needed
   1. If clerical or administrative personnel (see Section VIII)
   2. Review Section X to ensure the costs are not unallowable

C. Determine if the costs may be a direct cost (see Section III)

D. Review the costs to ensure that it complies with governing federal regulations
   1. Allowable (see Section IV)
   2. Allocable (see Section V)
   3. Reasonable (see Section VI)
   4. Consistently treated (see Section VII)

E. Review the costs to determine if it is allowable by the sponsor

F. Prepare proposal budget and justification

G. Route for approvals (Chair, Institution)

II. Preparing to Apply Direct Costs to Sponsored Projects

A. General Review to determine if it can be a direct cost (see Section III)
   1. Review the request to ensure that it complies with governing federal regulations
      a. Allowable (see Section IV)
      b. Allocable (see Section V)
      c. Reasonable (see Section VI)
      d. Consistently treated (see Section VII)
   2. Review the request to determine if it is part of the scope of the project

1 http://www.whitehouse.gov/omb/circulars_a021_2004
2 http://www.whitehouse.gov/omb/circulars_a021_2004
3. Review the request to determine if it is allowable by the sponsor
4. Was it approved in the proposal budget
5. If the expense does not meet the above requirements, it is not an allowable cost on the project

B. Personnel Services Charges
1. Review recommended personnel to see if they are able to allocate time to the project
2. If it is an administrative or clerical person, see Section VIII for more information
3. Review current and committed effort to ensure its appropriateness and it can be met
4. Take the necessary steps (adjustments) to resolve any effort that would make a person’s total effort exceed 100%
5. If you are able to apply the person to the project, prepare and process the Personnel Services Form (PSF)

C. Other Than Personnel Services Charges (OTPS)
1. Review the request to determine where to secure the item
2. Locate the vendor/product and make sure that it meets the expectations of the Principal Investigator (PI)
3. Ensure that there is sufficient funding to purchase the item
4. If you are able to apply the item to the project, prepare and process the request

III. What is the difference between Direct and Indirect Costs?

A. Direct Costs are costs that can be easily identified to a particular sponsored project, instructional activity, or other institutional activity with relative ease and a high degree of accuracy. Such costs include the salaries and fringe costs of principal investigators, faculty, post docs, and research assistants associated with effort on sponsored projects, instructional activities and other direct cost objectives; or non labor costs such as lab materials, instructional supplies, animals, and animal care. Direct costs are costs required in meeting the objectives of the project.

B. Indirect Costs are costs that cannot be easily identified to a particular sponsored project, instructional activity or other institutional activity with relative ease and a high degree of accuracy. Such costs include the salaries & wages and fringe costs of clerical and administrative staff; or office supplies that benefit multiple projects and or activities where it is difficult to assign the benefit of these costs with accuracy and ease to each project and or activity. These costs are included in the facilities & administrative (F&A) rate and are recovered as such on sponsored projects.

Generally, direct and indirect costs are readily separable. The following chart outlines the main costs that are applicable to each category.
IV. Allowable

The federal regulations 2 CFR 220 (OMB Circular A-21) states that:
The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

The Government has specifically identified costs as unallowable (Section X) on federal grants and contracts in OMB Circular A-21. However, individual agencies and programs have authority to approve certain costs. For example, it may be appropriate to budget "ALCOHOL" as a direct cost of a sponsored project to study effects of alcohol on reflex movement. To budget or charge such a cost, one must fully disclose such items in the budget narrative or have written approval by the sponsoring agency grant/contract management officer (if approval was not obtained in the original proposal and award document). The purchase of alcohol in this instance would then be coded as a lab supply, not entertainment.

V. Allocable

A cost is allocable to a particular sponsored project if the goods or services involved are chargeable or assignable to the sponsored project in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if it:
1. Is incurred solely to advance the work under the sponsored agreement; or
2. Benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods.
**Exception to Allocability Rule**

1. **Capital Equipment**
   Where the purchase of equipment or other capital items is specifically authorized by the sponsor (NOTE: "authorized" means approved by the sponsor (or internally approved, if such internal approvals are allowed by the sponsor)), the amounts thus authorized for purchase are assignable to the sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved.

2. **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. Additionally, one must consider the cost to be an indirect cost if the cost benefits common joint objectives and cannot be assigned to benefitted projects with relative ease and a high degree of accuracy.

**VI. Reasonable**

A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amounts involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time of the decision to incur the cost.

1. Whether or not the cost is of a type generally recognized as necessary for the performance of the sponsored project;
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.

**VII. Consistent Treatment**

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 (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. Additionally, postage in this instance can be justified as a direct charge due to (1) it is required for meeting the objectives of the project, (2) postage costs are significant and finally, (3) it can be easily identified with a high degree of accuracy to the project.

The unlike circumstance must be documented/justified in the proposal budget/narrative for sponsor approval when indirect-type costs are requested and charged as direct costs. Note: sponsor approval does not necessarily guarantee the appropriateness of the charge if audited by the federal government. Final responsibility rests upon the Principal Investigator and the University to defend and comply with OMB Circular A-21.

VIII. Administrative and/or Clerical Personnel

As required by OMB 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.

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. OMB 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.

1. Examples of "major project" where direct charging of administrative/clerical staff salaries may be appropriate are given in OMB Circular A-21 Exhibit C Examples of "major project" where direct charging of administrative or clerical staff salaries may be appropriate, 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.
   a. 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.
   b. 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).
   c. Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
   d. Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
   e. Projects that are geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research field sites that are remote from campus.
   f. Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communications.
2.1A– Direct Cost Procedures for Sponsored Projects

2. "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:
   a. They fall within the special circumstances described in OMB Circular A-21 (Item 1 above).
   b. 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 effort system.
   c. 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.
   d. 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).

3. If an administrative/clerical salary meets the first two (2) conditions as listed in Item 2 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. 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.

IX. Unacceptable Direct Charging Practices

The following are unacceptable direct charging practices that can result in significant fines and penalties if audited:

A. Purchasing items simply to use an unobligated balance
B. Rotating charges among projects with no consideration of assignable benefits
C. Assigning charges to a project on the basis of the remaining balance to resolve funding problems
D. Charging the budget amount (in contrast to charging an amount based on actual usage)
E. Assigning charges to an award before the cost is incurred (except as an encumbrance)
F. Charging an expense exclusively to an award when the expense has supported other activities
G. Applying a "departmental tax" to projects for clerical, secretarial, and administrative costs

X. Unallowable Costs

For either Facilities & Administrative Costs (F&A - Indirect costs) or Direct Costs, 2 CFR Part 220 identifies specific activities or transactions that are not allowed to be charged to sponsored activities, either as a direct cost or an F&A cost. The Federal Government has specifically identified costs as unallowable on federal grants and contracts. The list below is not all-inclusive. Individual agency and program requirements may list other "unallowable" costs.
2.1A– Direct Cost Procedures for Sponsored Projects

1. Advertising for general promotion of the University, including printed materials, promotional items, memorabilia, gifts, and souvenirs
2. Advertising for recruitment purposes that includes color or is excessive in size
3. Alcoholic beverages
4. Alumni or fundraising activities
5. Antiques
6. Bad debt write-offs
7. Charitable Contributions
8. Commencement expenses
9. Decorative objects for private offices
10. Entertainment
11. Fine/original art
12. Fines and penalties
13. First-class/business-class air travel differentials
14. Flowers
15. Gifts, prizes, and awards
16. Goods or services for personal use
17. Lobbying
18. Memberships in airline travel clubs
19. Memberships in civic, social, community organizations or country clubs
20. Faculty and exempt staff salary in excess of base rates paid by the institution.
21. Selling or marketing products or services of the University.
22. Social events