



7A-6 DIRECT/INDIRECT COSTS

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Effective Date:	April 11, 2019
Revision History:	New: September 25, 2006 Readopted: August 1, 2014 Revised February 4, 2016 (Administrative change to update Federal regulation references only)

I. INTRODUCTION

Federal regulations require that the same types of costs be treated consistently as direct or indirect costs.

The regulations for determining the costs of federally-sponsored projects at educational institutions are located in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR 200, Subpart E. These guidelines establish the principles for determining costs applicable to sponsored agreements (grants, contracts and other agreements) with Institutions of Higher Education (IHE) and also require non-federal entities to follow the Cost Accounting Standards codified in 48 CFR 9905.501, 9905.502, 9905.505 and 9905.506.

The four Cost Accounting Standards are:

1. CAS 501 - Consistency in Estimating, Accumulating, and Reporting Costs
2. CAS 502 - Consistency in Allocating Costs for the Same Purpose
3. CAS 505 - Accounting for Unallowable Costs
4. CAS 506 - Cost Accounting Period

II. POLICY

This policy statement provides guidance to University personnel to assure compliance with the requirement that direct and indirect costs be treated consistently and applies to federal, state, and other public sponsored agreements. For this purpose, the term "federally-sponsored agreement" includes agreements received directly from federal agencies as well as federal flow-through funds received by FSU from other organizations.



Definitions

A. Direct Costs (2 CFR 200.413)

1. *General.* Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs. See also §200.405 Allocable costs.
2. *Application to Federal awards.* Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. Typical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefit costs, the costs of materials and other items of expense incurred for the Federal award. If directly related to a specific award, certain costs that otherwise would be treated as indirect costs may also include extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations.

B. Indirect (F&A) Costs (2 CFR 200.414)

1. *Facilities and Administration Classification.* For major IHEs and major nonprofit organizations, indirect (F&A) costs must be classified within two broad categories: "Facilities" and "Administration." "Facilities" is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. "Administration" is defined as general administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of "Facilities" (including cross allocations from other pools, where applicable). For Institutions of Higher Education, library expenses are included in the "Facilities" category. Major IHEs are defined as those required to use the Standard Format for Submission as noted in Appendix III to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs) paragraph C. 11. Major nonprofit organizations are those which receive more than \$10 million dollars in direct Federal funding.



Consistent Treatment of Costs

Consistent treatment of costs is a basic cost accounting principle and is specifically required by 2 CFR 200.412; 419 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 CAS 502 (48 CFR 9905.502).

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 sponsored agreements, unless the circumstances related to a particular project are clearly different from the routine 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.

Sponsored Agreements under the Uniform Guidance (2 CFR 200, Subpart E)

A. Administrative and Clerical Salaries and Fringe Benefits

The Uniform Guidance provides clear guidance regarding the charging of salaries for administrative and clerical staff. These salaries should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if ALL of the following conditions are met:

1. Administrative or clerical services are integral to a project or activity;
2. Individuals involved can be specifically identified with the project or activity;
3. Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
4. The costs are not also recovered as indirect costs.

B. Other Normal Indirect Costs

The Uniform Guidance states that each item of cost incurred for the same purpose must be treated consistently in like circumstances either as a direct or an indirect cost (2 CFR 200.412, Classification of costs.)

Sponsored Research Administration acknowledges that there may be special circumstances where it is appropriate to direct charge costs that are normally



indirect costs. Typical indirect costs may be directly charged only when they meet all of the following criteria:

1. The project has a special need for the item or service that is beyond the level of services normally provided.
2. The cost can be specifically identified to the work conducted under the project and is appropriately documented.
3. The cost is specified in the proposal budget of the sponsored agreement, and the special circumstances requiring direct charging are approved pursuant to this policy and the C.A.S. exemption form requirements.
4. 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 the cost meets the conditions above, but was not included in the approved budget of the sponsored agreement, it may be charged directly to the agreement where the University has rebudgeting authority under Federal regulations or the terms of the sponsored agreement, and the charge is justified and approved by Sponsored Research Administration on the C.A.S. exemption form.

III. LEGAL SUPPORT, JUSTIFICATION, AND REVIEW OF THIS POLICY

2 CFR 200 [UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS](#)

Florida Statutes 1004.22

These policies will be reviewed periodically and updated when necessary.

/s/ Gary K. Ostrander

[Proof of approval retained in file]