

FLORIDA STATE UNIVERSITY

POLICY 7A-6

DIRECT/INDIRECT COSTS

Responsible Executive: Gary K. Ostrander, Vice President for Research

Approving Official: Gary K. Ostrander, Vice President for Research

Effective Date: February 4, 2016 (Administrative change to update Federal regulation references only)

Revision History:     New: September 25, 2006  
                          Readopted: August 1, 2014

I. Introduction

**BACKGROUND AND PURPOSE**

- 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 in Office of Management and Budget (OMB) *Circular A-21: Cost Principles for Educational Institutions* and 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 educational institutions.
- Effective May 8, 1996, Circular A-21 was revised to incorporate four Cost Accounting Standards (CAS) applicable to educational institutions. These were originally issued for contracts by the Cost Accounting Standards Board (CASB), and the A-21 revision extended the standards to all sponsored agreements. The A-21 revision also requires large institutions (including FSU) to disclose their cost accounting practices by the submission of a disclosure statement (DS-2) prescribed by CASB. The Uniform Guidance also requires non-federal entities to follow the Cost Accounting Standards found at 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
- This policy statement provides guidance to University personnel to assure compliance with the requirement that direct and indirect cost be treated consistently.

## II. Policy

This policy statement provides guidance to University personnel to assure compliance with the requirement that direct and indirect cost be treated consistently and applies to all sponsored agreements, federal and non-federal. 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. For federal awards received on or after December 26, 2014, the new Uniform Guidance found at 2 CFR 200 is applicable; for federal awards received prior to December 26, 2014, the requirements under A-21 (2 CFR 220) are applicable unless the federal awarding agency has amended the award to incorporate the Uniform Guidance (2 CFR 200).

### DEFINITIONS

#### A. **DIRECT COSTS (A-21, SECTION D.1.)**

OMB Circular A-21: Cost Principles for Educational Institutions states "Direct costs are those 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 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 costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution."

#### B. **DIRECT COSTS (2 CFR 200.413)**

(a) *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.

(b) *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.

#### C. **INDIRECT COSTS (A-21, SECTION E.1. &F.1)**

Indirect costs are defined in A-21 as "those that are incurred for common or joint objectives [of the University] and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity or any other institutional activity." These costs are comprised of a number of components, categorized as "facilities and administration". "Facilities" includes "depreciation and use allowances, interest on debt associated with certain buildings, equipment and capital improvements, operation

and maintenance expenses, and library expenses. "Administration" is defined as general administration and general expenses, departmental administration, sponsored projects administration, student administration and services, and all other types of expenditures not listed specifically under...facilities."

**D. INDIRECT (F&A) Costs (2 CFR 200.414)**

(a) *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 Circular A-21 and 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 OMB A-21

### ADMINISTRATIVE AND CLERICAL SALARIES AND FRINGE BENEFITS

1. The salaries of administrative and clerical staff and related fringe benefits are normally as indirect costs. These costs may be charged directly only under exceptional circumstances. OMB Circular A-21, Section F.6.b., Departmental Administration Expenses, states:

"The salaries of administrative and clerical staff should normally be treated as F&A (indirect) costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity."

2. With regard to A-21, Section F.6.b, the following OMB interpretation has been issued to provide guidance on when direct charging of administrative and clerical salaries might be appropriate:

*This provision [F.6.b] 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 of administrative and 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 (Institutional Review Board) 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.*

3. Administrative and clerical salaries may be charged directly if they meet all of the following conditions:
  - a. They fall within the special circumstances described in the OMB interpretation.
  - b. 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 personnel activity reporting system (PARS).
  - c. The title(s), percent of effort, and salary amount(s) for the clerical/administrative position(s) are included in the proposal budget of the sponsored agreement and approved pursuant to this policy and the C.A.S. exemption form requirements.
  - 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).

If an administrative or clerical salary meets the conditions in paragraph 3. a. and b. 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, and the charge is justified and approved by the Division of Sponsored Research on the C.A.S exemption form. Approval of these requests will be given where the Division of Sponsored Research determines that the circumstances meet the conditions in paragraphs 3. a. and b. above.

## OTHER NORMAL INDIRECT COSTS

According to OMB Circular A-21, Section F.6.b., the following costs are normally treated as indirect costs. They may be charged directly only under special circumstances.

- Office supplies
- Postage
- Local telephone services (including basic line charges and local calls)\*\*
- Memberships

\*\* Long distance toll charges that are reasonable and necessary to the performance of a project may be charged directly.

Examples of special circumstances that may justify direct charging of these costs include: *Office supplies and postage* - Special circumstances may exist when a project has a special or unique need for such supplies and postage that clearly differs from the normal use of these items by other activities of the institution. The use of the supplies or postage must be significantly greater than the routine level of such items provided by academic departments and must be used specifically for the technical purposes of the project rather than to support administrative or clerical efforts. Examples of these circumstances may include a project that requires significant data collection through an extensive mail survey or a project providing notebooks to a large number of workshop participants. *Telephone* - Special circumstances may exist where a separate dedicated line is necessary solely for the performance of the project (e.g. a telephone hotline or a telephone survey). *Memberships* - Special circumstances may exist if a project requires a subscription to a professional journal and the membership is required to obtain the subscription.

These costs may be directly charged only when they meet all of the following criteria:

- The project has a special need for the item or service that is beyond the level of services normally provided.
- The cost can be specifically identified to the work conducted under the project and is appropriately documented.
- 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.
- 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 in the first two criteria 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 the Division of Sponsored Research on the C.A.S. exemption form. Approval of these requests will be

given where the Division of Sponsored Research determines that the circumstances meet the conditions in paragraphs 3. a. and b. above.

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

#### **ADMINISTRATIVE AND CLERICAL SALARIES AND FRINGE BENEFITS**

Under the Uniform Guidance, clear guidance is given 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.

#### **OTHER NORMAL INDIRECT COSTS**

The Uniform Guidance states that each item of cost incurred for the same purpose 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. The normal indirect costs may be directly charged only when they meet all of the following criteria:

- a. The project has a special need for the item or service that is beyond the level of services normally provided.
- b. The cost can be specifically identified to the work conducted under the project and is appropriately documented.
- c. 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.
- 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).

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

OMB A-21 Cost Principles for Educational Institutions

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.

Gary K. Ostrander, Vice President for Research

February 4, 2016