

University of Connecticut

**DIRECT AND INDIRECT COSTS OF
FEDERAL GRANTS AND CONTRACTS**

Policy CADS1

Date Issued: June 19, 1998

I. BACKGROUND AND PURPOSE

This policy is based on OMB Circular A-21 “Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements With Educational Institutions” and the CASB’s Cost Accounting Standards appended to the circular. These Federal regulations require that the same types of costs be treated consistently as direct or indirect costs.

The purpose of this policy statement is to provide guidance to University staff to assure compliance with the Federal requirements.

II. EFFECTIVE DATE

This policy is effective on July 1, 1998 and applies to all charges to sponsored agreements on or after that date.

III. APPLICABILITY

This policy applies to all sponsored agreements, federal and non-federal. However, a cost normally treated as indirect, such as an administrative or clerical salary, may be directly charged to a non-federally sponsored agreement if permitted by the sponsor’s policies or is otherwise agreed to by the sponsor.

IV. DEFINITIONS

A. DIRECT COSTS

Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other University 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 the University 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 University.

B. INDIRECT COSTS

Facility and Administrative (F&A), formally called indirect costs, are those 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 University activity.

V. CONSISTENT TREATMENT OF COSTS

Consistent treatment of costs is a basic cost accounting principle and is specifically required by Circular A-21 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 a Cost Accounting Standard (referred to as CAS 9905.508 502 —“Consistency in allocating costs incurred for the same purpose by educational institutions”) 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 and clerical staff, office supplies, and postage are normally treated as indirect costs, the same types of costs cannot be charged directly to federally 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 and directly benefit the project.

A. PERSONAL SERVICE COSTS

The principal classes of direct personal service costs are faculty, non-teaching professionals, research assistants, research associates, post doctoral fellows, graduate students, and other students for positions funded by federal and private grants. The direct charges include salaries and fringe benefits.

B. MATERIALS AND SUPPLIES

The principal types of materials and supplies charged directly to sponsored agreements and other direct cost objectives include chemicals, glassware, books and periodicals, minor

equipment items (i.e., those below the University's capitalization threshold of \$1,000), uniforms, computer software and supplies, photographic supplies, and tools.

C. OTHER DIRECT COSTS

Principal categories of other direct costs include: travel; conference costs; consulting services; subject costs; animals; animal care and other specialized and technical services; publication costs; subawards; equipment; alterations and renovations needed to meet specific project requirements; long distance telephone expenses; special repair and maintenance of equipment; rent and other facility costs of off-campus facilities.

VII. COSTS INCURRED FOR MULTIPLE ACTIVITIES OR 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.

VIII. NORMAL F&A (INDIRECT) COSTS

A. ADMINISTRATIVE AND CLERICAL SALARIES AND FRINGE BENEFITS

Section F.6.b. of Circular A-21 indicates that the salaries of administrative and clerical staff should normally be treated as indirect costs. These costs may be directly charged only 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.

Section F.6.b. defines "Major Project" as a project that 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 cost would need to meet the general criteria for direct charging in Section II A. above -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.

Appendix C of Circular A-21 provides the following examples of circumstances where direct charging the salaries of administrative or clerical staff may be appropriate.

- Large, complex programs, such as 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.

- Projects that require making travel and meeting arrangements for a large number of participants, such as conferences and seminars.
- Projects where the principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- Projects which are geographically inaccessible to normal department administrative services such as seagoing research vessels 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. Projects requiring project-specific regulatory protocols; and multiple project-related investigator coordination and communications.

Administrative and clerical salaries may be charge directly only if they meet the following conditions:

- They fall within the special circumstances described in Section F.6.b. and Exhibit C of Circular A-21.
- The individuals have responsibilities specifically related to the work of the project and the effort devoted to the project is documented.
- The title(s), percent of effort, and salary amount(s) for the clerical/administrative 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.
- 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 (such as NIH Module Grants), the cost must be justified and approved by the Office for Sponsored Programs.

If the cost is not in the approved budget, it can be charged directly only if:

- The University has rebudgeting authority under Federal regulations or the terms of the award.
- Written justification for the direct charging is given.

- The direct charge is approved by the Office for Sponsored Programs.

B. OTHER NORMAL INDIRECT COSTS (F&A)

OMB Circular A-21, F.6.b. indicates that the costs of office supplies, postage, local (basic) telephone costs, and membership costs are normally treated as indirect costs. As with administrative and clerical salaries, these costs may be directly charged only under special circumstances.

Examples of special circumstances justifying direct charging of these indirect costs are:

- A project that involves a large survey may include the cost of the paper in its direct operating budget.
- Postage: A project that has a need for an extraordinary amount of postage; such as the mailing of a large survey, or shipping tissue cultures between sites working on a project, may result in direct charging to the sponsored project.
- Local Telephone Cost: Projects for which telephone surveys or a telephone hot line are a major component of the sponsored project.
- Memberships: The sponsor requires the membership for the performance of the project or the membership is needed to carry-out the project or needed to obtain subscription services that directly benefit the project.

These costs may be directly charged only if they meet the following requirements:

- The project has a special need for the item or service that is beyond the level of services normally provided.
- The costs can be specifically identified to the work conducted under the project.
- The costs are 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 (such as NIH Module Grants), the cost must be justified and approved by the Office for Sponsored Programs.

If these costs are not in the approved budget, they can be charged directly only if:

- The University has rebudgeting authority under Federal regulations or the terms of the award.
- Written justification is given for the direct charging of these costs.
- The direct charging, of these costs is approved by the Office for Sponsored Programs.

University of Connecticut

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Policy CADS-1 (Effective July 1, 1998)

Date Approved: _____

(Signature)

(Print or Type Name)

(Title)