

AUBURN UNIVERSITY DIRECT COST POLICY

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Definitions

Direct Cost - Those costs that can be identified specifically with a sponsored activity with relative ease and a high degree of accuracy are charged directly to the benefiting activity.

Indirect Cost - Costs that are incurred for common and/or joint objectives and therefore cannot be specifically and readily identified with a particular sponsored activity.

Cost Objective - A function, organizational subdivision, sponsored agreement, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc

Intermediate Cost Objective - A cost objective that is used to accumulate indirect costs or service center costs that are subsequently allocated to one or more indirect cost pools and/or final cost objectives.

Policy Statement

This policy establishes consistent practices for defining, charging, and coding direct and indirect costs to university accounts. These practices must be consistently applied in like circumstances for all sponsored accounts and any other institutional activity affecting sponsored projects. Those involved in charging costs to university accounts must understand and comply with this policy in order to meet federal costing standards and ensure that costs are allocated to accounts in a manner that is an accurate reflection of the expenses incurred for the benefit of the project. The purpose of this policy is to ensure compliance with the standards set forth in Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions , and 48 Code of Federal Regulations (CFR) part 9905, Cost Accounting Standards for Educational Institutions . Adherence to these cost principles and practices by the University is necessary to prevent cost disallowance, penalties, and/or fines. It is the responsibility of Principal Investigators, Department Heads and Administrators to understand and comply with this policy.

Federally Sponsored Activities and Cost Objectives Which Affect Federally Sponsored Activities

Charging direct costs to federally sponsored projects

For all federally sponsored activities, costs are treated consistently in like circumstances as either a direct or indirect.

Items generally designated as indirect costs may be treated as direct costs if incurred for different purpose or for unlike circumstances.

These costs may be charged directly to federally sponsored activities when:

1. The services or materials are required by the scope of the project.
2. The costs can be accurately identified with the project.
3. The specific type and nature of the services or materials are significantly greater than ordinarily required by a sponsored project, and

4. The cost is clearly disclosed and fully justified in the proposal budget and approved by the sponsor in the awarded document.

With approval of the sponsor, re-budgeting for these costs is permitted provided the first three criteria are met. Costs that have been properly determined to be direct costs shall be assigned or allocated to each project -using proportional allocations, that is, benefitting two or more projects or activities in proportions that can be determined without undue effort or cost.

Unacceptable direct cost charging practices

The following examples are unacceptable practices for direct charging on federally-sponsored projects or any other institutional activity affecting federally-sponsored projects;

- rotating charges among projects without establishing that the rotation schedule accurately reflects the relative benefit to each project during the specified period of time;
- assigning charges to a project on the basis of the remaining balance to resolve funding problems;
- charging the budgeted amount in contrast to charging an amount based upon actual usage;
- assigning charges to an award before the cost is incurred;
- charging an expense exclusively to an award when the expense has supported other activities;
- assigning charges that are part of the normal administrative support for awards (e.g. proposal preparation, accounting, payroll, routine preparation of purchase orders and vouchers);
- applying a "departmental tax" to projects for clerical, secretarial, and administrative costs or prorated costs for office supplies, telephone bills, photocopier usage and the like, and
- charging costs incurred for multiple projects or functions to several sponsored projects when there is difficulty determining the benefit of the cost to each sponsored project.

Guidelines for Charging Indirect-type Costs as Direct Costs

Size, nature of work, location, and complexity of federally-sponsored projects, although not the final determining factors, are important considerations in determining circumstances where exceptions are justified. The existence of special circumstances must be evaluated on a case-by-case basis. The Principal Investigator must first determine that the indirect-type costs are necessary for the successful conduct of the project. If so, they must be documented and fully justified in the budget narrative at the proposal submission stage (when identifiable at that time) or during the term of an existing award when extenuating circumstances have arisen. The Office of Sponsored Programs will review the justification to verify whether or not the costs meet the conditions of this policy.

Discussion of Selective Items Normally Charged as Indirect Costs

Clerical and Administrative Personnel

Although it is recognized that there are differences in staffing among the various academic units, a core of clerical and administrative personnel exists within each department to support the various missions of the unit. These personnel provide a broad range of general support service, including secretarial assistance, the procurement of materials and services, accounting and bookkeeping, proposal preparation, payroll and human resource tasks. The costs of these activities should be recovered through indirect cost recoveries. Therefore, the salaries of personnel engaged in providing this type of baseline departmental service cannot normally be charged as direct costs to federally sponsored projects.

However, clerical and administrative personnel may be considered as direct and appropriately charged to federally sponsored projects, or institutional accounts that charge federally sponsored projects such as Service Centers under the following circumstances:

1. Difference in nature of work performed (that is, apart from the normal duties) When clerical and administrative employees are conducting more than the general Business aspects of an award, for example devoting time to scientific purposes (i.e. coding, data input, etc.), their time may be charged as a direct cost and identified as such in the proposal. Since the characteristic of the work performed is functionally different from the general business activities of clerical and administrative personnel and/or the work performed is related to the technical activities of the project, charging of these salaries & wages is an acceptable direct costing practice.

All federally sponsored projects require budget justification for these costs. The administrative or clerical services related specifically to the technical substance of the project must be justified and described in the proposal budget justification or the narrative as technical functions instead of normal clerical functions. An Auburn University form titled, "Justification for Administrative and Clerical Salaries on Contracts, Grants and Cost Sharing Accounts" (May 21, 1997) may be used in lieu of the budget narrative.

1. Where size, nature and complexity of activity must be considered together. Size, nature and complexity of the project or activity, although not the final determining factors, are in the aggregate important considerations in determining whether clerical and administrative services should be charged as direct costs.

When an individual's effort devoted to the project or activity goes well beyond the normal clerical and administrative support of general departmental functions and can be specifically identified with the project or activity with relative ease, these costs may be charged as direct costs. Such projects include, but are not limited to, multidisciplinary awards, program project awards, center-type awards, clinical trials, international projects, projects at remote locations and projects involving extensive data collection and surveys.

Non-Labor Indirect-Type Costs

Non-labor costs such as general office supplies, postage, local telephone charges and photocopying are normally considered indirect costs. For the following, selected types of costs, independent and verifiable cost documentation must be maintained when directly charging to a federally sponsored project. The determination to direct charge these types of costs is similar in nature to the determination process for salary costs. Examples of non-labor costs normally charged as indirect costs are as followed:

Office (Project) Supplies

General office supplies such as pens, pencils, staples, calendars, paper punches, printers, print cartridges, computer diskettes, and paper are usually considered as indirect costs. However, supplies that qualify are:

- significant in quantity and cost to the project;
- are completely consumed in the course of the project;
- are not used for other purposes
- are assigned with relative ease and with a high degree of accuracy may be charged as direct costs. This includes lab notebooks, diskettes, transparencies, printer paper for research data and reports, and binders. Projects such as center awards, clinical trials and epidemiology studies, due to their size, nature and complexity, may require office supplies well beyond the normal volume of office supplies required to operate the department business functions, and therefore may be charged as direct costs to the project. However, the requirement must be justified in the proposal budget.

Postage

Postage charges for routine and general business correspondence are normally considered as indirect costs. However, costs incurred for postage projects that require mass mailings or courier services where the costs are assigned with relative ease and with a high degree of accuracy to the project may be charged as direct costs.

Recurring Phone/Local (including installation and maintenance)

All phone charges except long distance calls that can be specifically identified to an activity are normally considered as indirect costs. Phones (instrument and line charges, installation and de-installation charges) can be charged directly only when these costs are necessary for the performance of the project and are dedicated to a single project. Examples of federally sponsored projects where direct charging of recurring phone/local charges may be appropriate are for center awards and single projects heavily dependent upon phones.

Photocopies

Ordinarily photocopies are considered as indirect costs because of their general business nature. However, when the photocopies are grant specific, significant, necessary for the conduct of the scope of work, and there is a departmental log or some other defensible method to support these costs as direct costs, they can be charged to grants or contracts.

Books and Subscriptions

Books and subscriptions are not allowed on most research projects, unless there is a unique need. Off campus locations may be able to justify these costs because of their inability to access libraries and other departmental resources. Training grants may be able to justify the cost for trainees because of the nature of the project.

Service Centers and Department Recharge Accounts

When developing a rate, units, organizations or departments that provide services predominately to colleges and departments accumulate their costs to operate the venture, and charge customers, especially federally sponsored projects, and must consistently treat costs as direct and indirect in like circumstances.

Departments should not create recharge accounts such as secretarial support pools or photocopying centers to circumvent this policy. It is the responsibility of the Principal Investigator to justify the direct charge of Service Centers and department recharge accounts' goods and services to federally sponsored projects.

Non-federally Sponsored Activities

The direct charging of items normally considered indirect costs shall not be used in lieu of or to reduce indirect cost recovery at the appropriate, negotiated indirect cost rate. If a nonfederal sponsor using non-federal funds has no objections to the direct reimbursement of indirect costs, and the approved budget and/or award allows it, no justification is necessary and the degree of disclosure is determined by the requirements of the sponsor. Where a nonfederal sponsor consistently and universally limits indirect cost recovery to a rate less than the applicable negotiated rate, items normally treated as indirect costs may be charged as direct costs.

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