Direct/Indirect Cost Allocation Procedure for Sponsored Agreements/Grants

Procedure Statement

Direct, indirect and allowable costs shall be consistently estimated, charged, accumulated, and reported in compliance with federal cost principles contained in the Uniform Guidance and the University's cost accounting standards.

Reason for the Procedure

This procedure statement and the guidelines and definitions contained within provide reference in determining the charging of expenses to a sponsored agreement. Furthermore, this procedure ensures consistent usage of University's cost accounting practices to prevent unallowable costs and to prevent double charging of costs on sponsored agreements.

Therefore, the purpose of this cost allocation procedure is to summarize, in writing, the methods and procedures that Slippery Rock University will use to allocate costs to various programs, grants, contracts and agreements.

Procedure

Four guiding principles or criteria from the applicable federal guidelines shall be used to determine whether a cost can be charged to a sponsored agreement. These criteria apply for both direct and indirect (Facilities & Administrative) costs, which are defined below. For a given cost to be charged to a sponsored agreement, all four (4) of these criteria must be met

1. Reasonableness – For a cost to be considered reasonable, it must be:
    a. Recognized as necessary for the operation of the institution or the performance of the Agreement,
    b. Consistent with the requirements imposed by arms-length bargaining, federal or state laws and regulations, and ethical business practices, and
    c. Related to an action and/or in an amount deemed within the norms of business conduct (i.e., passes the "prudent person" test).
2. Allocability – For a cost to be considered allocable, it must:
    a. Be incurred solely to advance the work under a sponsored agreement, or
    b. Benefit both the sponsored agreement and other work of the institution, in proportions that can be approximated through the use of reasonable methods and
    c. Be assignable to the benefiting activities without undue effort or cost.
3. Allowability – For a cost to be considered allowable, it must:
    a. Not be designated as "unallowable" under applicable federal guidance,

b. Adhere to sponsor-specific policies and award-specific terms and conditions regarding specific items of cost, and

c. Adhere to University policies regarding specific items of cost.

4. Consistency – For a cost to be considered consistently treated,

   a. It must be treated in the same manner (i.e either as direct or indirect) in like circumstances

   b. Certain type of costs like office supplies, postage, direct charging of administrative salaries are normally treated as indirect costs unless the circumstances related to a particular project are clearly different from the normal operations of the institution.

Direct Costs

A direct cost of a sponsored agreement regardless of funding source (i.e., cost share) is one that can be identified specifically with that sponsored agreement or that can be assigned to the sponsored agreement relatively easily with a high degree of accuracy. General cost categories that may be identified as direct costs on individual sponsored agreements include, but are not limited to, the following:

- Salaries, wages, and related fringe benefit costs of faculty, staff researchers, and research assistants
- Graduate students
- Laboratory/scientific/technical materials, services, and supplies
- Scientific equipment costs
- Travel costs
- Consultant/subcontract costs
- Other direct costs as specifically required, budgeted, and/or approved as necessary to accomplish the purposes of the individual sponsored agreement

If a cost benefits two or more projects/activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects/activities based on the proportional benefit. If proportions cannot be determined due to the interrelationship of the work, then costs may be allocated on any reasonable basis for any allocation basis used, written support must exist in each case which describes how the allocations have been determined and why the method is reasonable.

Direct Cost Classification and Charging on Sponsored Agreements

Direct or indirect costs must be classified to the correct expense account as defined by the University Chart of Accounts. Improper classification for the purpose of charging an unallowable cost or an indirect cost as a direct cost on a sponsored agreement is prohibited. Direct costs charged to sponsored agreements may not be shifted to other sponsored agreements to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience. Direct costs must be charged to the appropriate sponsored agreement when first incurred. Charging costs to a sponsored agreement until another sponsored agreement becomes available is prohibited. Direct costs charged to awards should be net of any applicable credits. Examples of such transactions are: purchase discounts, rebates, or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges.

Indirect Costs (Facilities and Administrative Costs)

Indirect costs are those costs that are incurred for common or joint objectives and cannot be identified readily or specifically with a particular sponsored agreement, or any other institutional activity. Costs that are normally charged as indirect costs on sponsored agreements (via a Facilities & Administrative rate) include, but are not limited to, the following:

- Salaries and related fringe benefits of administrative and clerical staff
- Office supplies (pencils, paper, notebooks, standard forms, file folders, etc.)
- Postage costs (not identified in a budget narrative of a sponsored agreement)
- Telecommunications (office phone related costs including monthly equipment usage fees, internet, and cell phones)
- Physical plant work orders
- Memberships and subscriptions
- General purpose equipment
- General purpose computers, software, and computer supplies

Unlike Circumstances Guiding Principle

Generally, an unlike circumstance is defined as an activity/use of a cost item which is substantially greater in amount or different in purpose than the normal use of that cost type. Specifically, in order to direct charge a cost on a federal sponsored agreement that would ordinarily be charged as an indirect cost, the following requirements must be met before consideration:

- The sponsored agreement has an extraordinary need for the item or service that is beyond the level of services normally provided by departmental administration,
- The cost can be specifically identified to the work conducted under the sponsored agreement and is appropriately documented,
- The direct cost justification provides sufficient basis to classify an indirect cost as a direct cost within the context of the University's cost accounting standards.

Direct Charging of Administrative Staff

Administrative salaries are allowable as a direct charge to federal projects, as long as the following conditions are met:

a) Administrative or clerical services are integral to a project or activity;

b) Individuals involved can be specifically identified with the project or activity;

c) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and

d) The costs are not also recovered as indirect costs

In addition to the federal guidelines that specify the above, individual sponsor guidelines and requirements and waivers surrounding the above are also applicable.

Unallowable Costs and Activities (Direct or Indirect costs)

Unallowable costs and activities must be identified and excluded from any billing, claim, or proposal submitted to the federal government. Unallowable costs must be classified using the appropriate expense account to meet the federal standard. The following examples of unallowable costs cannot be charged to federal sponsored agreements either as a direct cost or as part of the F&A rate.

- Alcoholic beverages
- Donations and contributions
- Fines and penalties
- Goods and services for personal use, such as automobiles
- Memberships in any civic or community organization
- Bad debt expense
- Entertainment
- First class travel
- Housing and personal living expenses for officers of the institution
- Sponsor-agreement specific unallowable costs, i.e. salary above a cap

In addition to the specific costs listed above, the costs associated with certain activities are unallowable on sponsored agreements and must be separately accounted for. Examples of unallowable activities are:

- Alumni activities
- Fundraising activities
- Losses on sponsored agreements
- Activities to prosecute claims against the federal government
- Malpractice insurance that does not involve human subjects
- Commencement and Convocation activities
- Investment management activities
- General public relations activities

• Defense and prosecution of criminal and civil proceedings

• Selling and marketing activities

Responsibilities

Principal Investigators shall ensure that all direct costs estimated and charged to a sponsored agreement are monitored and reviewed in accordance with this procedure.

Grant Accountant shall review sponsored proposals, awards, and expenditure accounts for compliance with this procedure.

The policy for the distribution of F&A costs is as follows:

- Project director (20%) – to be used by the project director for research-related or program-related costs, such as expenses related to the funded project for costs that are not covered by the grant, seed money for research projects and/or sponsored programs under consideration, supplies and travel for other research projects, and/or professional development.
- Department of the project director (10%) – to be used by the department chair to promote research projects and/or sponsored programs within the department, i.e., faculty/student research projects, travel costs to present papers/abstracts at conferences and seminars, matching funds for grant proposals, faculty professional development, etc.
- Dean of the College, Associate Provost or Vice President of the project director (10%) – to be used by the dean, associate provost or vice president to promote research projects and/or sponsored programs within the college/division, i.e., faculty/student research projects, travel costs to present papers/abstracts at conferences and seminars, matching funds for grant proposals, faculty/staff professional development, etc.
- Office of Grants, Research & Sponsored Programs (30%) – to be managed by the Director to promote the pursuit of external grants: sponsoring faculty/staff travel (to attend technical assistance writing workshops and/or meet with program directors of funding agencies for discussion of projects); workshops and training sessions for faculty/staff (such as basic grant writing, compliance/regulations issues, budgeting, etc.); professional development for Grants Office staff; and, increase services within the Grants Office
- Accounting Services (10%) – To be retained by the University to help supplement the financial tracking costs of research & sponsored programs (SAP software, computer equipment, grant accountant, etc.)
- General (20%) – to be retained by the university for the cost of doing research and sponsored projects (i.e., utilities, renovation of facilities to support research, etc.).

Definitions

Account: A chart field in the Chart of Accounts that categorizes the nature of the transaction as a specific type of revenue, expense, asset or liability.

Direct Costs: 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. Direct costs identified with sponsored agreements include applicable cost share and match.

Federal Sponsored Agreement: Any grant, contract, or cooperative agreement received directly by Slippery Rock University as well as subawards received by the University under federal awards to other organizations.

General Purpose Equipment: Equipment that is not limited to research, medical, scientific, or other technical activities. Examples include office equipment and furnishings, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

Indirect Costs: Indirect costs are defined in federal guidance 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." They are also called as "facilities and administration." and are comprised of a number of components. "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."

Major Project: As defined by applicable federal guidance, a Major Project is a project or activity that requires an extensive amount of administrative and clerical support that is significantly greater than the routine level of such services provided by academic departments. Major projects are those that are administratively intensive and are not necessarily defined by the amount of funding.

Reasonable Cost: A cost may be considered reasonable if the nature of the goods or services acquired or applied and the amount involved reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.

Review: A process whereby transactions are assigned as a direct, indirect, or unallowable cost per the federal regulations, sponsored agreement, and University policies.

Unlike Circumstance: An activity or use of a cost item which is substantially greater in amount or different in purpose than the normal use of that cost type.

Contacts

Questions related to the daily operational interpretation of this procedure should be directed to:

Accounting Manager – Accounting Services

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