University of Pittsburgh

FINANCIAL GUIDELINE Subject: Direct Charging Practices

I. Guideline Background

Uniform Guidance (UG) (2 CFR 200) includes definitions of direct costs (200.413) and indirect costs (200.414) that must be applied in a consistent manner for federally funded projects. The University utilizes these definitions to determine the application of costs across all projects, regardless of sponsor type or source of funds.

II. Scope

This guideline establishes the requirements for consistently recording direct and indirect costs on the financial accounting records of the University in accordance with Federal regulations and generally accepted accounting principles. The guideline also establishes the responsibility of the Principal Investigator (PI) and the Director of the Office of Sponsored Programs (Authorized Institutional Official) to ensure the accuracy and integrity of the direct and indirect (Facilities and Administrative or F&A) costs proposed on sponsored projects. In addition, the Department Chair and Departmental Administrator are responsible for ensuring that direct and indirect costs are properly identified and recorded by their respective departments. Finally, this guideline establishes the responsibility of the Director, Sponsored Projects Accounting to provide departmental support on direct charging issues related to OMB Uniform Guidance, to ensure compliance and integrity of the University's accounting for grants and contracts.

The University's guideline on direct and indirect costs applies to all faculty and staff who record costs on the accounting records of the University. It also applies to all sources of University funding, including unrestricted, restricted, endowment, and plant funds.

III. Definitions

Authorized Institutional Official – the University's designated administrative official responsible for assuring compliance with applicable terms and conditions of sponsored project awards, conformance with administrative, scientific and fiscal information, accountability for the appropriate use of funds awarded, and for grant performance; at the University, this individual is the Vice Chancellor for Sponsored Programs and Research Operations, who directs the Office of Sponsored Programs

Cost objective – a function, activity, organizational subdivision, sponsored project, or other unit for which cost data are desired and for which provision is made to accumulate and measure the cost

Departmental/Research Administrator (DA) – individual who is responsible for the original financial accounting, budgeting, and administration of the sponsored projects of a department or Principal Investigator

Department Chair – individual designated by the Dean of a School at the University who is responsible for the general financial and administrative oversight of activities conducted within the respective School, including sponsored project activities

Direct cost – a cost that can be identified specifically with a particular sponsored project, instructional activity, or other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy

Indirect or Facilities and Administrative (F&A) costs – those costs that are incurred for common or joint purpose and benefitting more than one cost objective, and therefore cannot be identified readily and specifically with a particular sponsored project, instructional activity, or other institutional activity

Principal Investigator (PI) – individual designated by the sponsoring agency who is responsible and accountable for the proper conduct and direction of the project or activity. At the discretion of the Dean, a PI for sponsored projects is typically a tenured or tenure stream faculty member, but can also be another member of the academic community such as a research associate or non-tenure stream research/clinical faculty. More information about the rights and responsibilities of PIs can be found in University policy RI 08 "Responsibilities of Sponsored Research Investigators" (formerly policy 11-01-02).

IV. Guideline

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct costs or indirect (F&A) costs. Where an institution treats a particular type of cost as a direct or indirect cost, all costs incurred for the same purpose in like circumstances must be treated the same way for all activities of the institution. For example, administration and clerical salaries are normally treated as indirect costs at the University,

because they benefit multiple activities. This accounting practice is also accordingly disclosed in the University's Cost Accounting Standards Disclosure Statement. Care must be taken to ensure that a cost is recovered once, and only once, from a single sponsor as either a direct or indirect cost to avoid the double recovery or double counting of costs.

- Proper recording of direct and indirect costs in the University's records facilitates the proper accounting for sponsored projects as well as the development of the University's indirect cost rate. Consequences of noncompliance with the proper recording of direct and indirect costs can result in the disallowance of costs on sponsored projects and the assessment of fines and penalties to the University. On a test basis, Internal Audit and the Office of the Controller will perform periodic reviews of the recording of direct and indirect cost transactions to ensure consistency and compliance with this guideline.

- The determining factor in distinguishing direct from indirect costs is identification with a sponsored project, rather than the nature of the goods and services involved. If a cost can be identified directly to a sponsored project, it must be charged directly to that project. If a cost is incurred for a common or joint purpose benefitting more than one University activity or cost objective that cannot readily be identified to one or more specific sponsored projects, instructional activities, or other institutional activities, the cost must be charged as an indirect expense. Appendix I of this guideline lists typical costs charged directly to a sponsored agreement or indirectly as an F&A expense as disclosed in the University's Cost Accounting Standards Disclosure Statement submitted to the U.S. Government.

Note: Allowable costs identified as distributed incorrectly to a particular cost objective must be identified and transferred to other soft funding (sponsored) as appropriate and must be completed within 90 days of the original incurred date. See also Cost Transfers *and* Allowability of Costs *guidelines*.

Expressly and or mutually agreed unallowable costs of federal awards need to be transferred in a timely manner to University hard funds available to the initiating department. Unallowable costs cannot be charged either directly or indirectly to sponsored awards. Allowable costs identified as distributed incorrectly to a particular cost objective may be transferred to other soft funding (sponsored) as appropriate. See also Allowability of Costs *and* Cost Transfers *guidelines.*

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A Note about Administrative and Clerical Salaries:

At the Department level, Departmental Administration Expenses represent those expenses that have been incurred for general administrative and supporting services that benefit multiple common or joint purpose departmental activities or cost objectives such as instruction, sponsored projects, and other institutional activities. These costs should normally be treated as indirect costs and are not directly recoverable on sponsored projects. In addition, the salaries of administrative and clerical staff should normally be treated as indirect expenses.

An exception to this rule may occur where the direct charging of these costs to sponsored projects may be appropriate, if and only if **all of the following four conditions** outlined in 200.413(c) are met:

- Administrative and clerical staff responsibilities are integral to the sponsored project or activity.
- Individuals involved can be specifically identified with the sponsored project or activity.
- Such costs are explicitly included in the budget and/or have the prior written approval of the sponsor. However, approval by the sponsor still does not constitute compliance with federal and other agency regulations, which is the responsibility of the University.
    - Budgeted levels of administration and clerical support approved by the sponsor do not necessarily constitute acceptance of the support as a bona fide direct cost or acknowledgement that the award constitutes a major program. It is the University's responsibility, and not the responsibility of the contracting officer, Federal agency, or other sponsor, to ensure that costs budgeted and charged to a sponsored project are allowable, allocable, and reasonable in accordance with sponsor regulations.
- The costs are not also recovered as indirect costs. Because administrative and clerical salaries are normally charged as indirect costs, the costs must be incurred in circumstances that are substantially different from most sponsored projects in order to be directly charged. Such costs would constitute costs incurred for the same purpose, but under different or unlike circumstances, making them allowable direct costs to the major project or activity.

Examples of sponsored projects that require extensive, quantifiable amounts of administration and clerical services may include:

- large, complex programs, such as administrative cores, program projects, environmental research centers, engineering research centers, and other projects that entail assembling and managing teams of investigators from multiple Schools and/or institutions
- projects that involve extensive data accumulation, analysis, and entry, surveying, tabulation, cataloging, searching literature and reporting, and coordination and sharing of project data between multiple sites, 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 hosted or coordinated by the University
- projects where the principal focus is the preparation and production of large manuals, reports, books, and monographs (excluding routine progress and technical reports), which require relatively intensive administrative assistance
- 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 extraordinary amounts of project-specific database management; individualized graphics or manuscript preparation; human or animal protocol, Institutional Review Board preparations and/or other project-specific regulatory protocols; and multiple project-related investigator coordination and communications

The examples above should be helpful in determining some of the costs that might necessitate administrative and clerical salaries as direct costs.

If the four conditions above are met, activities that support the project that may be allowable as direct charges might include:

- travel and meeting arrangements
- travel reimbursements
- purchasing activities
- financial tracking and management
- data processing
- payroll
- human resources

The following would not represent extensive amounts of administrative and clerical services and would therefore not qualify as a major project or activity:

- budgeted levels of administrative and clerical support on grants and contracts dissimilar to the examples previously presented
- routine levels of technical and progress report preparation
- routine levels of administration, sponsored project administration, purchasing, clerical and accounting support that do not represent extensive or extraordinary amounts of administrative activity beyond that normally required for a similar project
- administrative and clerical effort that cannot be specifically tied to a particular sponsored project activity relatively easily with a high degree of accuracy
- routine levels of Information Technology support staff performing functions such as hardware and software upgrades, desktop support services, helpdesk services, and data archiving
- receipt of numerous additional grants and contracts increasing overall departmental administrative workload with no one contract having greater administration than any other departmental contract

V. References

OMB UG 200.56 Indirect (F&A) costs
OMB UG 200.412 Classification of costs
OMB UG 200.413 Direct costs
OMB UG 200.414 Indirect (F&A) costs
OMB UG 200.420-UG 200.475 Selected Items of Cost

Cost Accounting Standards:
48 CFR 9905.501
48 CFR 9905.502

NIH Grants Policy Statement, 7 Cost Consideration
NSF PAPP Guide, Chapter 5 Allowability of Costs
University of Pittsburgh, RI 08 "Responsibilities of Sponsored Research Investigators" (formerly policy 11-01-02)

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APPENDIX I

Items typically charged as direct costs to a sponsored project include:

- Employee compensation for work performed on the sponsored project
- Related fringe benefits
- Material costs purchased for and expended on the project performance
- Material costs supplied from inventory and expended on the project performance
- Travel costs proposed and incurred on project performance
- Telephone toll charges specifically identified to the project
- Costs of animals and animal care
- Specific purpose capital equipment proposed on and required exclusively for a particular project
- Computer equipment proposed on and required exclusively for a particular project that is above and beyond what is normally provided by the department for use in the normal course of operations
- Administrative or clerical services that meet the UG criteria outlined in this Guideline
- Cost of subcontractors and consultants and other purchased services
- Laboratory supplies or issues from stores inventory specifically identified to a sponsored project
- Costs of publishing reports, manuscripts and other documents required by the sponsored project
- Specialized service facilities charges

Items typically charged as facilities and administration costs include:

- Administrative, support or clerical salaries
- Related administrative, support or clerical salary fringe benefits
- Accounting and Departmental administration salary and related fringe benefits
- Office supplies
- General office postage
- Local telephone costs and equipment and line charges
- Memberships and dues of a general nature
- Travel costs not specifically identified to a specific sponsored project
- Computers used for general office or general sponsored project use
- General operating and maintenance expense
- General purpose lab and test equipment
- General or routine copying charges; or immaterial copying charges not worthwhile tracing to specific sponsored projects