

## Charging Direct and Indirect Costs Policy

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### BACKGROUND

This policy defines how expenses will be budgeted and charged to sponsored projects.

As a recipient of federal awards, CSU Dominguez Hills Foundation (CSUDHF) is required to meet compliance standards as outlined by external regulations, including the federal guidelines in OMB Uniform Guidance (2 CFR 200) and ICSUAM 11003.05. All charges to sponsored projects must be consistent with criteria established in the Charging Direct and Indirect Costs Procedures, other applicable CSUDH and CSUDHF procedures, and sponsor regulations. It is also important that charges are properly documented. Regulations that set rules for direct and indirect charging include:

*OMB Uniform Guidance (2 CFR 200), Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions, Subpart E(200.402)* states:

The tests of allowability of costs under these principles are:

- a. they must be reasonable;
- b. they must be allocable to sponsored agreements under the principles and methods provided herein;
- c. they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and
- d. they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

*NIH Grants Policy Statement (GPS) 12/03* describes the difference between direct and indirect costs as follows:

*A direct cost is any cost that can be specifically identified with a particular project, program, or activity or that can be directly assigned to such activities relatively easily and with a high degree of accuracy. Direct costs include, but are not limited to, salaries, travel, equipment, and supplies directly benefiting the grant-supported project or activity. Most organizations also incur costs for common or joint objectives that, therefore, cannot be readily identified with an individual project, program, or organizational activity. Facilities operation and maintenance costs, depreciation, and administrative expenses are examples of costs that usually are treated as Facilities and Administrative (“F&A”/indirect costs). The organization is responsible for presenting costs consistently and must not include costs associated with its F&A rate as direct costs.*

*OMB Uniform Guidance Subpart E(200.412)* defines Facilities and Administrative (F&A) costs, commonly referred to as Indirect Costs (IDC) or overhead, as:

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 institutional activity.

**All costs charged to a sponsored project must comply with any terms and conditions or restrictions of the Notice of Grant Award (NGA) or other award/contract documentation.**

## **BUDGET ITEMS TYPICALLY CHARGED AS DIRECT COSTS**

### **Personnel Expenses**

1. Salaries, Wages and Fringe Benefits
  - a. Salaries, wages, and fringe benefits for non-administrative personnel (Principal Investigators, co-investigators, research staff, etc.) are allowable as direct charges on sponsored projects when the charges reflect actual work performed and directly benefit the sponsored project.
  - b. Salaries, wages, and fringe benefits for administrative personnel are typically unallowable direct charges on a sponsored project. However, there are exceptions when these costs may be charged directly to a sponsored project (i.e., a grant proposal requests, and the sponsor approves, funds for administrative support for a major program.
  - c. Salary, wage, and fringe benefit charges must be consistent with all other applicable CSUDH Foundation hiring procedures and employment practices, including not working prior to completing the hiring process.
  - d. Costs associated with providing fringe benefits (FICA, health insurance, retirement, workers' compensation insurance, state unemployment tax, etc.) to grant-funded personnel are charged on an actual basis to the sponsored project.
2. Independent Contractors/Special Consultants
  - a. Even if approved in the awarded budget, the Independent Contractor/Special Consultant must meet CSUDH Foundation's hiring criteria. CSUDH Foundation's Human Resources will make the determination as to whether an independent contractor meets the necessary requirements **and can be hired**.

### **Non-Personnel Expenses Subject to IDC/F&A Rates**

1. Supplies
  - a. Supplies directly related to the project, such as technical or scientific supplies, are allowable if they are purchased to directly benefit the project.
  - b. Office supplies are only allowable as direct charges to a sponsored project if they are necessary to complete the project and they are used solely for the project. Otherwise, general office supplies are typically unallowable as direct charges, and are instead covered by the University's F&A rate.
2. Travel
  - a. Travel costs, including transportation, lodging, and per diem rates are allowable. These expenditures must meet CSUDH Foundation/CSU Travel Policies and Procedures.
  - b. Additional travel guidelines or regulations listed in the Notice of Grant Award must be followed. Sponsor guidelines supersede CSUDH Foundation guidelines in these cases.

3. Meals and Entertainment
  - a. CSUDH hospitality policy regarding meals and entertainment expenses apply to all sponsored projects.
  - b. Many sponsors have more specific regulations than CSUDH. Sponsor guidelines supersede CSUDH guidelines in these cases.
  - c. The following items are generally **not** allowable as Meal and Entertainment expenses on sponsored projects:
    - i. Alcohol
    - ii. Magazines/Newspapers
    - iii. Movies
    - iv. Flowers
    - v. Gifts and Souvenirs
    - vi. Concerts/Events
    - vii. Balloons
    - viii. Spa Treatments
4. Animal Care
  - a. Animal care costs included in the awarded budget are allowable direct charges to a sponsored project, as defined by the sponsor guidelines.
  - b. If animal care costs exceed the budgeted amount or were not included in the awarded budget, refer to the sponsor guidelines regarding the allowability of these costs.
5. Equipment
  - a. Capital Equipment is defined as items with an acquisition cost of \$5,000 or more, and may also include consolidated equipment with a total value of \$5,000 or more. Typically, capitalized equipment that meets this definition is waived from indirect costs, based on CSUDH's federally negotiated F&A rate agreement.
  - b. Equipment that is used specifically for the benefit of a sponsored project may be charged directly to the sponsored project, depending on the sponsor's guidelines.
6. Subcontracts/Subawards (Consortium/Contractual Costs)
  - a. Subcontract/subaward agreements specified in the awarded budget are allowable direct charges to a sponsored project. If a subcontract/subaward is not in the awarded budget, refer to the sponsor for their specific requirements.
  - b. Only the first \$25,000 of a given subcontract/subaward agreement is subject to indirect costs.

### **Non-Personnel Expenses Exempt from IDC/F&ARates**

1. Participant Support Costs
  - a. Per sponsor guidelines, Participant Support Costs are allowable Direct Charges to a sponsored project.
2. Stipends
  - a. Stipend costs are allowable direct charges to a project at the rate defined in the approved budget and within sponsor guidelines.
3. Tuition
  - a. Student tuition costs are allowable direct charges to a project at the rate defined in the approved budget and within sponsor guidelines. Tuition costs are exempt from F&A Costs.

## INDIRECT COSTS OR FACILITIES AND ADMINISTRATIVE COSTS

### Examples of F&A Costs

- Utilities
- Salaries, wages, and fringe benefits for clerical and administrative staff
- General purpose laptop computers and other highly desirable personal electronic devices that cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity (e.g., iPads)
- Office supplies (basic supplies)
- Subscriptions
- Library books
- Periodicals
- Memberships
- Office and general purpose equipment (office furniture, general purpose lab equipment, etc.)
- Photocopying
- Postage
- Repair and maintenance (e.g., equipment)
- Telephone/cell phone, internet costs (e.g., monthly bills)
- Proposal development costs

### Exceptions: Charging F&A-Type Costs as Direct Costs

Justification for these types of charges must be well documented by the person incurring the cost. Some examples of projects in which the direct charging of costs normally considered F&A costs is appropriate include:

1. Large, complex programs, such as research centers, institutes, and other sponsored agreements that entail assembling and managing teams of investigators (e.g., as defined by 2 CFR 200.413 Subpart E).
2. Projects that require preparation and production of manuals, large reports, or surveys to meet the objectives of a specific sponsored project.
3. Projects designated as "off-campus" that are charged the off-campus F&A Cost rate. For example, rent and utilities may be directly charged to off-campus projects.

### Specific Examples of Exceptions

- Postage/Photocopies: Allowable if a direct benefit to the project can be documented (e.g., if a survey is being conducted as part of a project, copying and postage are allowable direct charges).
- Office Supplies: Allowable if it can be documented that there is a need for a greater amount of supplies for a project than is typically available (e.g., external media storage devices to store data).
- Meetings and Conferences: Costs of meetings and conferences are allowable if they are specifically provided for in the awarded budget, and the activity directly benefits the project. Items such as flowers, balloons, gifts, etc. are unallowable.
- Telecommunications: Telecommunications costs associated with a specific sponsored project can be direct charged (e.g., long distance charges can be direct charged to a sponsored project if the call benefits the project directly), but the appropriateness of these charges must be documented in all instances. If a telephone has been installed for the sole use of a particular sponsored program activity (e.g., conducting a phone survey is an objective of the project) and will be removed when the project terminates, the

related monthly service, voicemail, and non-toll expenses can be charged to the sponsored project. Cell phones, internet service, smart phones, and home internet service provider charges are only allowable if explicit approval from the sponsor is received, programmatic necessity can be documented, and the services are used exclusively for the sponsored project(s). No other telecommunication expenses should be direct charged as to a sponsored project.

### **Determining Allowable and Unallowable Costs**

- Allowable costs must meet the terms and conditions of the award and a test of reasonableness.
- Purchasing items to “spend down” available funds is prohibited by federal regulation. All costs charged to a project must specifically benefit the project they are charged.
- Large purchases made towards the end of a budget period, where it is not reasonable to expect the product(s) purchased can be used by the end date of the project, are unallowable (e.g. a large amount of general lab supplies purchased during the last week of an award).
- It is the responsibility of each Principal Investigator (PI) to monitor the award budget and ensure purchases are made in a timely manner.

### **UNACCEPTABLE DIRECT CHARGING PRACTICES**

#### **Inappropriate Practices for Charging Direct Costs to Sponsored Projects**

- Shifting costs to other sponsored projects in order to meet budget or funding deficiencies.
- Shifting costs to other sponsored projects to avoid sponsor restrictions.
- Assigning costs to projects in order to quickly spend down a remaining balance, such as:
  - Charging large equipment expenditures at the end of a project.
  - Increasing salary expenses on a project that are not consistent with actual effort expended.
- Charging costs incurred for multiple projects or functions to several sponsored projects when there is difficulty determining the relative benefit of the cost to each sponsored project (see Charging Costs to Multiple Projects below).
- Charging an expense exclusively to one award when the expense was used to support other activities (see Charging Costs to Multiple Projects below).
- Rotating charges among projects without establishing that the rotation schedule accurately reflects the relative benefit to each project during that specified period.
- Charging only the budgeted amount (in contrast to charging actual costs).
- Assigning charges to an award before the cost is incurred.
- Assigning personnel charges that are part of the normal administrative support for awards (proposal preparation, accounting, payroll, etc.).

#### **Charging Costs to Multiple Projects**

1. Some direct costs benefit multiple projects. Examples include copying, publishing costs, bulk lab supplies, and office supplies. These costs should be allocated to projects in proportion to the benefit. The NIH Grants Policy Statement states:  
*When salaries or other activities are supported by two or more sources, issues arise as to how the direct costs should be allocated among the sources of support. In general, a*

*cost that benefits two or more projects or activities in proportions that can be determined without undue effort or cost should be allocated to the projects based on the proportional benefit. A cost that benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved may be allocated or transferred to the benefiting projects on any reasonable basis.*

2. The method for allocating direct costs to multiple projects must be identified in advance of the allocation, and must be documented. Documentation to split costs for purchase requisitions should be included in departmental records. Documentation for allocation of special check requests through accounts payable should be documented in the comments sections of the request. The allocation method must be consistently applied to all sponsored projects in a defined group (e.g., department, PI, etc.). Switching between methods for convenience is not acceptable.
3. The following are charges that may be allocated to multiple projects:
  - a. Lab personnel working on each project, as certified on their Time and Effort Reports
  - b. Number of activities performed (e.g., project A has 20 experiments and project B has 40 experiments, therefore 1/3 of the costs will be allocated to project A and 2/3 to project B)
  - c. Rates established by a service center or other lab that correlates to the cost being allocated (e.g., animal facility charges)
4. Cost methods should not be allocated to multiple projects based on:
  - a. Budget over-expenditures
  - b. Expending remaining unspent funds
  - c. Rotating costs between projects
  - d. Pro-rated square footage

#### **Indirect Costs or Facilities and Administrative (F&A) Rate**

CSUDH will not “waive” (accept a lower amount than the federally negotiated rate) F&A unless required by the sponsor. The lower rate must be in writing in a publicly viewable document. F&A costs are paid as a percent of direct expenditures. Approximately every five years, CSUDH negotiates an F&A cost agreement with their cognizant government agency (Department of Health and Human Services). The CSUDH F&A cost rate states the rate of F&A costs that the government will reimburse to CSUDH related to activities on a sponsored program.

Federal: The CSUDH F&A cost rate should be used except for those programs that publish a lower rate. Additionally, depending on where the sponsored activity will take place (on-campus or off-campus) or the type of activity (basic research, instruction, or other sponsored activities), different rates may apply.

Non-Federal: Many non-federal sponsors, such as foundations, limit the F&A rate they will pay. In these cases, it is CSUDH procedure to charge the maximum amount allowed by the sponsor, based on the sponsor’s published rates.

Subcontracts/Subawards: It is important to determine the original source of funding on any incoming or outgoing subaward/subcontract agreement. Based on this determination, the appropriate criteria listed above should be used to determine the F&A rate.