

503-005-A: Allowable Cost Procedure: Direct & Indirect

This procedure implements CSU systemwide policy for Sponsored Programs Administration: [Sponsored Programs Allowable Costs](#) (ICSUAM #11003.05).

Summary

In compliance with the above referenced policy, it is the responsibility of the principal investigator (PI) to ensure that expenditures to their project(s) are allowable, allocable and reasonable, in accordance with the following procedure.

The Federal Uniform Guidance ([2 CFR 200](#)—*Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*) establishes principles for determining costs applicable to grants, contracts, and other agreements from the federal government. [Subpart E](#)—Cost Principles identifies specific requirements related to cost principles. The PI has primary responsibility for understanding what costs are allowable on sponsored projects and determining if costs should be directly charged to a project or considered indirect costs and charged to the appropriate unrestricted account. The PI is also responsible for using funds in a manner consistent with Federal, Sponsor and CSU regulations. All direct charges to sponsored projects must adhere to the principles of cost allowability, allocability, and reasonability and must be consistently applied in like circumstances.

Through 2 CFR 200, the federal government has established guidelines for the types of costs it will (allowable) and will not (unallowable) reimburse on sponsored projects. The government identifies [allowable costs](#) as either **direct** or **indirect** costs. **Direct costs** are 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 activities with relative ease and a high degree of accuracy. These costs can be directly charged to a sponsored project. **Indirect costs** are costs 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. Indirect costs are reimbursed through the Indirect Cost or Facilities and Administrative (F&A) cost rate, this rate is charged to the sponsor based on the Modified Total Direct Costs (MTDC) of each sponsored project in accordance with the negotiated indirect cost rate agreement.

This procedure establishes the guidelines for determining direct, indirect and unallowable costs. It is the responsibility of the PI to understand these guidelines and to ensure that costs are appropriately and consistently applied to sponsored projects. The University Corporation (Corporation) post-award staff are responsible for reviewing and approving costs that are directly charged to a sponsored project and to ensure that they are compliant with the following guidelines. The Corporation post-award staff are also a resource to PIs when further clarification is needed for how costs should be charged to sponsored projects.

Adherence to this policy and procedure is necessary to prevent cost disallowances and penalties by the federal government and other sponsoring agencies.

Further Defining Direct and Indirect Costs

1) Charging of Direct Costs to Sponsored Agreements

A. Allowable Direct Costs –

Direct costs charged to sponsored awards must be:

- (1) **Reasonable** and necessary for meeting the objectives of the project.
- (2) **Allowable** according to the terms and conditions of the award and in accordance with 2 CFR 200, Subpart E, [General Provisions for Selected Items of Cost](#) (Sections 200.420 – 200.475). For example, alcoholic beverages (200.423) are not allowed on sponsored projects. Please see section 1.C of this document for more detail on unallowable costs.
- (3) **Allocable** with relative ease to a specific activity or project or multiple projects based on its relative benefit to the project or projects. If costs are to be allocated between multiple projects, there must be supporting documentation of how the costs were allocated between the projects. If the benefit is spread over multiple projects and it is difficult to identify the direct benefit to each project with relative ease, the cost must be considered an indirect cost.
- (4) **Consistent** with costs charged in similar circumstances to other Corporation and CSUMB activities.
- (5) **Available** within the budget of the award.

The following illustrates typical direct cost charges on sponsored awards and further defines the circumstances for which they can be charged. All transactions must adhere to Corporation policies and procedures. The PI is responsible for ensuring that costs requested to be approved by the Corporation meet the criteria of an allowable direct cost. The Corporation Post-Award Analyst is responsible for reviewing these costs and approving only those that fully meet the criteria.

Salaries and Wages

Salaries, wages, and fringe benefits are allowable as direct charges on sponsored projects as long as the charges reflect the actual work performed and directly benefit the sponsored agreement. An effort reporting process was created to comply with federal regulations that require salaried and exempt staff and faculty of the University to participate to ensure the accuracy of effort charged on federal projects. Please reference the CSU Effort Reporting policy (ICSUAM #11006.03) and Corporation procedure (503-006-A) for more information on the effort reporting process.

Consultant Services

These services are provided to advance a specific portion of the project's scope of work. The provider may be either a member of a profession or a person possessing a special skill; he or she generally cannot be on the regular Corporation or University payroll. Agencies vary in their requirements for approval of consultants. When consultant services are not in the awarded budget, refer to the agency guidelines for any specific requirements. However, even when consultant services are included in the awarded budget, the consultant agreements must be processed in accordance with applicable government and/or sponsor regulations and University/Corporation procurement policies and procedures.

Subcontracts and Subawards

For Subcontract agreements specified in the awarded budget invoices are allowed to be directly charged to a sponsored project. If a subcontract or subaward is not in the awarded budget, refer to the agency guidelines for their specific requirements. PI and Corporation review costs charged on a subcontract or subrecipient invoices to ensure that costs are allowable. For compliance with subrecipient monitoring requirements from 2 CFR 200, please reference the Subrecipient Monitoring procedure #502-006-A.

Equipment

Special purpose equipment which will be used specifically for the benefit of the sponsored project, may be charged directly to the sponsored project depending on the agency specific guidelines. General equipment, such as copiers and computers for use on multiple projects, should not be charged directly to a sponsored project since general purpose equipment is included as part of the costs reimbursed through the F&A rate.

If an equipment purchase is specified in the awarded budget, further approval is generally not required. If the approved budget does not include equipment, most agencies require prior approval. Contact the Corporation Post-Award Manager for additional assistance in determining whether prior approval is required.

The PI and the Corporation Post-Award Manager must maintain documentation regarding the status, condition, and location of equipment purchased in accordance with 503-013-A Externally Funded Equipment and Property Management Procedure.

Postage, Photocopies & Supplies

These expenses can be directly charged to a sponsored project only if it can be documented that there is a direct benefit to the project. If the costs are being allocated to several sponsored projects and the departmental budget, documentation of and justification for the method of allocation must be attached to the approved invoice or expenditure transfer (any transfer of expenditures must comply with the Corporation's Cost Transfer procedure #503-005-B).

Research Incentives

Incentive payments for research participants through a gift card or other form of payment are allowable in accordance with applicable government and/or sponsor regulations and may require IRB approval for participants in human subject research. In situations where the total payments for a calendar year may exceed \$600, refer to the guidelines section.

Telephone Expenses

In general, only telecommunication costs associated with a specific project can be charged to the relevant PeopleSoft fund and project. Records documenting the appropriateness of transferring these charges from the originally billed fund to the sponsored projects fund must be attached to the invoice coded for payment and be in accordance with the Cost Transfer procedure #503-005-B. If a telephone has been installed for the sole use of a particular grant or contract activity (e.g. if conducting a phone survey is an objective of the project), monthly service, message units, and non-toll charges can be charged to the sponsored project. All other telephone expenses should be charged as indirect costs. Long distance charges may be a direct charge to a sponsored project if the call was a direct benefit to the project.

Travel

Travel costs, which include transportation, lodging, per diem, and incidentals, that are included in the awarded budget require no further approval and may be directly charged to a sponsored project as long as they are within established University/Corporation travel guidelines and in accordance with applicable sponsor guidelines. If travel costs exceed the budgeted amount or if travel was not included in the awarded budget, refer to the specific agency guidelines regarding the allowability of travel. Some agencies may require prior approval.

Travelers on federally sponsored trips must travel coach class on U.S. flag carriers, unless that option is not available. Contact the Post Award Manager prior to booking a flight on non-U.S. flag carriers for guidance.

Participant Support, Scholarships, Tuition and Stipends

Stipend and Tuition costs, also referred to as participant support costs, may be directly charged to a project at the rate defined in the approved budget. Any changes in stipend and/or tuition rates or reallocation of an approved budget for participant support costs generally requires agency approval. When the sponsoring agency does require prior approval for reallocation of the budgeted amount for participant support (i.e., National Science Foundation, [prior approval requirements](#)), it is the responsibility of the PI to ensure that the participant support budget is not utilized for any other purpose, without prior written approval from the sponsor. Contact the CSUMB Sponsored Programs Office (SPO) for further guidance and assistance with obtaining prior approval from the sponsoring agency.

B. Charging Indirect-type Costs as Direct Costs

- There are times when it is allowable to charge costs directly to a grant that are normally considered indirect costs. The justification of these costs must be documented and approved by the Post Award Manager. Uniform Guidance, [2 CFR 200 Section 413](#) (paragraph c), states that *“The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if the following conditions are met:*
 - (1) Administrative or clerical services are integral to a project or activity;*
 - (2) Individuals involved can be specifically identified with the project or activity;*
 - (3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and*
 - (4) The costs are not also recovered as indirect costs.”*

Refer to the [PI Quick Reference Guide](#) for more changes under 2 CFR 200 related to charging typically indirect costs as direct costs, including computing charges.

See below for costs typically considered indirect costs.

C. Unacceptable Direct Charging Practices

The following practices are inappropriate for charging direct costs to a sponsored project:

- (1) Assigning costs to projects in order to resolve an excess balance available on a project, this includes:
 - Assigning large equipment expenditures at the end of a project.
 - Increasing salary expenses on a project with an available balance when it is not consistent with the actual effort expended.
- (2) Charging an expense exclusively to one award when the expense also supports other activities.
- (3) Assigning expenses to a project that is not identifiable to a specific item or service.
- (4) Assigning charges to an award before the cost is actually incurred.
- (5) Assigning charges that are part of the normal administrative support for awards (e.g., proposal preparation, accounting, and payroll).

2) Charging of Indirect (F&A) Costs to Sponsored Agreements

Federal Sponsors agree to reimburse institutions for indirect costs incurred to support sponsored projects through the federally negotiated F&A rate applied to the modified total direct costs of each award. This rate is calculated by determining the allowable costs the Corporation and University bears to support sponsored funding that are not directly charged to a sponsored project. These costs are allocated within the following categories that are summarized in [Appendix III](#) to 2 CFR 200:

2 CFR 200 Category	Typical Indirect Costs
General & Administrative	The costs of operating institutional wide financial and general management, budget and planning, human resource management, payroll, and academic and student affairs.
Department Administration	Departmental administrative support services that benefit common or joint departmental activities in academic departments or organized research units
Sponsored Administration	Projects Expenses incurred in the office of sponsored program administration including grant & contract admin (pre and post-award), special security, purchasing, personnel, administration, and editing/publishing of reports
Building Depreciation	Depreciation on any University/Corporation owned building over its useful life
Equipment Depreciation	Depreciation on the equipment purchased from non-federal funds
Interest Expense	All interest expenses incurred
Operations & Maintenance	Facilities management expenses, janitorial and utility services, repairs and ordinary alterations of the physical plant, maintenance and operation of buildings, security, disaster preparedness, environmental safety, hazardous waste disposal and property liability & other insurance.
Libraries	Central library services

Sponsors pay for indirect cost through the application of the F&A rate. If a cost is included as an indirect cost in the F&A rate calculation and is directly charged to a sponsored project, the sponsor will be inappropriately charged twice for the cost. To prevent this from occurring, the following is a guideline of costs that are normally considered indirect costs and should not be charged directly to sponsored projects:

A. Salaries of administrative and clerical staff for activities such as:

- Accounting and budgeting activities
- Filing
- General department administration
- Grants and contracts administration
- Maintaining databases
- Processing and tracking routine purchase orders
- Routine travel planning
- Routine data entry

B. Office supplies such as:

- Binders
- Business cards
- Copy paper
- Envelopes
- File folders and labels
- Postage for general use

C. Local Telephone costs and equipment

D. Rent and other Utilities

E. General use supplies or equipment such as:

- Word processing software
- Computers, laptops, or handheld computers
- Pagers or cell phones

Please see the above section [B. Charging Indirect-type Costs as Direct Costs](#) for examples of when it is appropriate to charge these costs directly to an award.

3) Unallowable Costs

There are certain costs that cannot be charged to a sponsored project, either directly or indirectly. These costs are identified in 2 CFR 200, Subpart E and include costs such as:

- A. Alumni activities
- B. Development and fund raising
- C. Entertainment
- D. Lobbying
- E. Defense or prosecution of criminal or civil proceedings
- F. Selling or marketing activities

Please refer to 2 CFR 200, Subpart E, Cost Principles, for a complete list of unallowable costs. PIs are responsible for ensuring that these costs are not charged directly to a sponsored project.

Process

- 1) Most direct charges, payroll assignments and independent consultant agreements to be posted to sponsored projects will be routed to the Corporation for review and approval prior to processing the payment.
- 2) The Corporation will review the charge and supporting documentation upon receipt to ensure that it is allowed to be directly charged in compliance with applicable guidelines.
 - a) As detailed above, [direct charges on sponsored projects](#) must be: **reasonable** and necessary for meeting project objectives; **allowable** in accordance with 2 CFR 200, sponsor and Corporation guidelines; **allocable** to the specific project or activity; **consistent** with costs charged in similar circumstances; and **available** within the award budget.
 - b) Sponsors have specific guidelines for what is allowed to be directly charged to certain projects. To determine if the cost is allowed by the sponsor, the Corporation Post-Award Specialist will:
 - (1) Confirm that the cost was included in the **awarded budget**. If the item does not appear in the budget, then other reviews must be conducted to determine if the item is allowable under re-budgeting authority that may be granted to the Corporation, or if the item may be allowable if prior approval is obtained in writing from the agency.
 - (2) Ensure that the cost falls within the budget period of the award.
 - (3) Verify within the **award document or the contract/agreement** issued for the sponsored project that the cost is allowable.
 - (4) Become familiar with the **sponsor guidelines** on the allowability of certain costs. Even if the type of expense proposed appears in the budget, the specific expense may not be allowable per the agency guidelines.
- 3) After the Corporation reviews the expense, they will approve the invoice or other request for payment and route to the appropriate department (i.e. accounts payable or purchasing) for immediate processing.
- 4) If it is determined that the expense should not be charged to the sponsored project, the Corporation will contact the PI to determine a more appropriate fund to charge the expense. If the charge is an indirect cost as defined above, it should be charged to the department's operating fund, or to another unrestricted fund. The Corporation Post-Award Specialist (or Manager) is responsible for communicating with the PI and/or the Corporation processing department the status of any expenses that cannot be approved and charged to the sponsored project.

Roles & Responsibilities

PI: The PI is responsible for approval of expenditures and ensuring that they are allowable, allocable and reasonable and in accordance with the budget.

- One-Up Authorization & Approvals

Principal Investigators (PI) may not authorize or approve reimbursement of:

- Their own expenditures;
- Expenditures by or for a superior; and
- Expenditures made by a relative or spouse, whether they are an investigator, grant or contract

employee, or external consultant. Such situations require appropriate disclosures, approvals at the time of proposal and, if accepted, a next level approver.
Delegations of authority must be designated on the Chartfield Request Form during project setup.

Corporation: The Post-Award Specialist is responsible for the approval of expenditures submitted by the PI. All expenditures must meet the allowable, allocable and reasonableness test and be in accordance with the approved budget and applicable regulations and sponsor terms and conditions.

SPO: Ensure that expenditures included in cost proposals are in compliance with this procedure and relevant sponsor or government regulations.

References

For definitions of key words in this procedure, refer to the CSU systemwide [Sponsored Programs Definitions Policy](#) (ICSUAM #11001.01).

Links to Regulations

- Uniform Guidance, [2 CFR 200](#)
- National Science Foundation, [Proposals and Awards Policies and Procedures Guide](#)
- 2 CFR 200 [Subpart E](#)— Cost Principles