



## Charging Direct and Indirect Costs Policy

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### **BACKGROUND**

As a recipient of federal awards, San Francisco State University (SFSU) is required to meet compliance standards outlined by external regulations, including the federal guidelines in OMB Circular A-21. This policy defines how expenses will be budgeted and charged to sponsored projects at SFSU.

All charges to sponsored research must be consistent with criteria established in the Charging Direct and Indirect Costs Procedures, other applicable SFSU procedures, and sponsor regulations. It is also important that charges are properly documented. Regulations that set rules for direct and indirect charging include:

*OMB Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions, Subpart C(2)* 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 F&A costs (indirect costs). The organization is responsible for presenting costs consistently and must not include costs associated with its F&A rate as direct costs.

***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 documentation.***

## **SCOPE DIRECT COSTS**

### **A. Personnel Expenses**

#### **1. Salaries, Wages and Fringe Benefits**

- a. Salaries, wages, and fringe benefits for non-administrative personnel (such as Principal Investigators, co-investigators, research staff, etc.) are allowable as direct charges on sponsored projects as long as the charges reflect the actual work performed and directly benefit the sponsored project.
- b. Time and effort certification provides the documentation that SFSU uses to verify that the effort expended on projects matches the amount charged.
- c. Salaries, wages, and fringe benefits for administrative personnel (such as department administrators) should typically not be charged directly to a sponsored project.
- d. There are specific exceptions when these costs may be charged directly to a sponsored project, for instance, if a grant application includes a request for a research administrator and the funding agency funds such a position, this constitutes approval for such a cost.
- e. Salary, wage, and fringe benefit charges must also be consistent with all other applicable SFSU procedures (e.g. Fringe Benefits, Earned Time, Leave of Absence, Vacation, etc.).
- f. Costs associated with providing fringe benefits to research personnel are charged on an actual basis to sponsored research projects.
- g. Examples of fringe benefit costs include:
  - i. FICA
  - ii. Health Insurance
  - iii. Pension and Benefits
  - iv. Earned Time Cash Outs
  - v. Employee Group Life & Disability
  - vi. Workers' Compensation Insurance
  - vii. State Unemployment Tax
  - viii. Employee Tuition Reimbursements
  - ix. Other (Fitcorp discount memberships, Employee Assistance Program, etc.)

#### **2. Independent Contractors/Special Consultants**

- a. The provider may not be an employee of SFSU.
- b. Agencies vary in their requirements for approval of Independent Contractors.
- c. However, even when this information is included on the awarded budget, the Independent Contractor must meet certain criteria. SFSU will use the following criteria:
  - i. Independent Contractors must be in good standing with the federal government e.g. not debarred from doing work. This can be determined by searching the Excluded Parties Listing System (<http://www.epls.gov>).
  - ii. The nature and scope of the service advance the project's scope of work.
  - iii. The Independent Contractor is not an employee of SFSU or a SFSU affiliated foundation.

- iv. If a conflict of interest exists with the individual providing the services, it should be reported by the Principal and/or other Investigator prior to any work being conducted. This should be reported on the Conflict of Interest Form and submitted to the Office of Research and Sponsored Programs (ORSP).
  - v. Necessity of contracting for the service, considering SFSU resources in the particular area.
  - vi. Reasonableness of costs in relation to customary fees charged, other Independent Contractors, sponsor guidelines, and industry standards.
  - vii. Whether the service can be performed more economically by direct employment or otherwise.
  - viii. The qualifications and credentials of the individual.
  - ix. Adequacy of the contractual agreement for the service (e.g. description of the service, estimate of time required, rate of compensation, indemnification of SFSU and termination provisions).
  - x. The appropriate Accounts Payable forms are complete and supported with appropriate documentation.
- d. Independent Contractors must also meet the Human Resources criteria listed at <http://www.sfsu.edu/~hrwww/directives/pd156.htm>. SFSU Human Resources will make the final determination as to whether an Independent Contractor meets the necessary requirements and can be hired.
- e. Independent Contractor costs must be reasonable, appropriately documented, and compliant with SFSU and sponsor guidelines.

*Note:* Certain sponsors, such as the National Science Foundation (NSF), limit Independent Contractor compensation. For awards made prior to 3/15/2006, NSF limits Independent Contractor compensation to the amount of an Executive Schedule Level IV Federal employee (currently \$537/daily). While the Appropriation Act applicable to NSF for Fiscal Year 2006 no longer identifies a limitation on payments to consultants under NSF awards with FY 2006 appropriated funds, payments should be comparable to the normal or customary fees charged and received by the consultant for comparable services, especially on non-government contracts and grants.

### **3. Participant Support and Tuition**

- a. Stipend and tuition costs are allowable direct charges to a project at the rate defined in the approved budget and within sponsor guidelines.
- b. Per the NSF's Grants Policy Manual, "Funds provided for participant support may not be used by grantees for other categories of expense without the specific prior written approval of the cognizant NSF Program Officer."
- c. The NSF Grants Policy Manual also states that "Participant support allowances may not be paid to trainees who are receiving compensation, either directly or indirectly, from other federal government sources while participating in the project. A non-NSF federal employee may receive participant support allowances from grant funds provided there is no duplication of funding of items and provided no single item of participant cost is divided between his/her parent agency and NSF grant funds."

- d. For NIH training grants, stipend levels are published each year on the NIH website (<http://grants1.nih.gov/training/nrsa.htm#inst>). Other sponsors also have limits for stipend levels; changes in stipend and/or tuition rates usually require sponsor approval. If the approved budget does not include stipends or tuition, most sponsors require prior approval for categories to be added.
- e. The use of stipend and/or tuition rates different from those already approved by the funding agency require sponsor approval.
- f. Additional compensation may be provided to trainees. SFSU may choose to provide additional compensation above the maximum stipend paid by the sponsor if it is paid by the trainees' department, or other funding source, and charged to a non-sponsored account.

## **B. Non-Personnel Expenses**

### **1. Equipment**

- a. Capital equipment is defined as items with an acquisition cost of \$5,000 or more.
- b. Typically equipment that meets this definition is included as part of the indirect cost rate as its usage and benefits cannot be specified to an individual project.
- c. Equipment that is used specifically for the benefit of a sponsored project may be charged directly to the sponsored project depending on the sponsor specific guidelines.
- d. 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.

### **2. 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. Clerical and office supplies are allowable under certain circumstances where they are necessary to complete the project and will not be used on another project.
- c. Clerical and office supplies are examples of charges that can be collected with the University's Facilities and Administrative (F&A) rate and are often unallowable.

### **3. Travel**

- a. Travel costs, including transportation, lodging, and per diem rates, must meet the criteria established in the SFSU Travel Procedures.
- b. Additional travel guidelines or regulations listed in the sponsored project award document must be followed. Travel expenses that meet these guidelines and were included in the awarded budget require no further approval and can be directly charged to a sponsored project. Examples include:
  - i. Travel costs (except for per diem and mileage) must be charged on an actual basis.
  - ii. First class airfare is not reimbursable except in extraordinary circumstances and must be pre-approved by ORSP.
  - iii. Only US Flag Carriers may be used for international air travel, unless there is no US Flag Carrier with service to the destination, or if the use of a US Carrier creates an unreasonable travel schedule.
  - iv. Airfare purchased must be coach class unless otherwise directed by a physician's request.

- c. If travel costs exceed the budgeted amount or if travel was not included in the awarded budget, refer to the specific sponsor guidelines regarding the allowability of travel as some sponsors may require prior approval of the travel.

#### **4. Meals and Entertainment**

- a. SFSU Hospitality policy regarding meals and entertainment expenses apply to all sponsored projects.
- b. Principal Investigators and key personnel should become familiar with the sponsor's guidelines regarding travel, meals and entertainment.
- c. Many sponsors have more specific regulations than SFSU. Sponsor guidelines supersede SFSU guidelines in these cases.
- d. The following items are not allowable as Meal and Entertainment Expenses:
  - v. Alcohol
  - vi. Magazines/Newspapers
  - vii. Movies
  - viii. Flowers
  - ix. Gifts and Souvenirs
  - x. Concerts/Events
  - xi. Balloons
  - xii. Spa Treatments

#### **5. 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. Appropriate rates and costs must be used.
- c. The Office of Protection for Human and Animal Subjects, has information specific to animal and human subjects listed at their website:  
(<http://www.sfsu.edu/~protocol/index.htm>).
- d. 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. Some sponsors require prior approval for these expenses.

#### **6. Sub-Contracts (Consortium/Contractual Costs)**

- a. Sub-contract agreements specified in the awarded budget are allowable direct charges to a sponsored project.
- b. If a sub-contract is not in the awarded budget, refer to the sponsor guidelines for their specific requirements.
- c. SFSU requires that sub-contractors submit a budget page through ORSP that details the amount of money they are requesting to complete their portion of the project. SFSU sub-contracts are reviewed, negotiated, and signed by the Procurement Office  
(<http://fiscaff.sfsu.edu/Procurement/>).
- d. Sub-contracts must also be approved and signed by the sub-contractor's sponsored projects office (or similar office).

## **INDIRECT COSTS OR FACILITIES AND ADMINISTRATIVE (F&A) COSTS**

OMB Circular A-21 Section E(1) defines Facilities and Administrative (F&A) costs as “F&A costs are 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.” F&A costs are commonly referred to as indirect costs or overhead.

Examples of F&A costs include:

- Utilities
- Salaries, wages, and fringe benefits for clerical and administrative staff
- Office supplies (basic supplies)
- Subscriptions
- Library books
- Periodicals
- Memberships
- Office and general equipments (e.g. desks, chairs, computers)
- Photocopying
- Postage
- Repair and maintenance (e.g. equipment, remodeling)
- Telephone and internet (e.g. monthly bills, installation, maintenance)
- Utilities
- Proposal development costs

### **A. Exceptions--Charging Facilities and Administrative (F&A)-Type Costs as Direct Costs**

Justification for these types of charges must be well documented by the person incurring the cost.

Examples of projects in which 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.
2. Projects that require extensive data collection, accumulation, analysis, and/or cataloging.
3. Projects that require preparation and production of manuals, large reports, and the acquisition of books to meet the objectives of a specific sponsored project.
4. Projects designated as off-campus which are charged the off-campus F&A Cost rate. For example, off-campus projects are allowed to have rent and utilities directly charged.

### **B. Specific Examples of Exceptions**

#### **1. Postage/Photocopies**

These expenses are allowable direct charges to a sponsored project only if it can be documented that there is a direct benefit to the project (e.g. if a survey is being conducted as part of a project, the photocopy and mailing expenses are allowable direct charges).

#### **2. Office Supplies**

These expenses are allowable direct charges to a sponsored project only if it can be documented that there is a significantly greater amount of supplies required for a project (e.g. if a large number of blank compact disks need to be purchased to store data).

### **3. Meetings and Conferences**

Costs of meetings and conferences, whose primary purpose is the dissemination of technical information, can be charged to a sponsored project if they are specifically provided for in the awarded budget and the activity directly benefits the project. Sensitive cost items, such as flowers, party balloons, and gifts are not allowable or negotiable and should be charged to a non-ORSP discretionary project.

### **4. Telecommunications**

Telecommunications costs associated with a specific project can be charged directly to the relevant sponsored project (e.g. long distance charges can be direct charges to a sponsored project if the call benefits the project directly). Records should document the appropriateness of these charges in all instances. 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) and it will be removed when the project terminates, monthly service, message service, and non-toll expenses can be charged to the sponsored project. Cell phones, pagers, personal digital assistants (e.g. Palm Pilots, etc.), and home Internet Service Provider charges are only allowable if explicit approval from the sponsor is received, programmatic necessity can be documented, and these services are used exclusively for the sponsored project(s). No other telecommunication expenses should be charged as direct costs to a sponsored project.

## **C. Determining Allowable and Unallowable Costs**

1. Allowable costs must meet the terms and conditions of the award and a test of reasonableness.
2. It is the responsibility of each Principal Investigator to monitor the award budget and ensure that purchases are made in a timely manner.
3. Purchases should take into consideration the time it will take SFSU to process a purchase requisition and create a Purchase Order, the time it will take for a vendor to process and ship an order, and the amount of time it will take to consume the products purchased.
4. Large purchases made towards the end of a budget period, (e.g. a large amount of general lab supplies are purchased during the last week of an award) where it is not reasonable to expect that the products purchased can be used by the end date of the project, are unallowable.
5. Purchasing any item to “use up” available funds is prohibited by federal regulation. All costs charged to a project must specifically benefit the project they are charged. See Appendix at the end of this document for the Cost Items table that shows allowable and unallowable expenses.

## **UNACCEPTABLE DIRECT CHARGING PRACTICES**

### **A. 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 based on remaining balance, such as:
  - Charging 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.

- 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 the budgeted amount (in contrast to charging an amount based on actual costs).
- Assigning charges to an award before the cost is incurred (with the exception of deposits).
- Assigning charges that are part of the normal administrative support for awards (e.g. proposal preparation, accounting, payroll).

## **B. Charging Costs to Multiple Projects**

1. Some direct costs benefit multiple projects (e.g. copying publishing costs, bulk lab supplies, office supplies). These costs should be allocated to projects in proportion to the benefit. The NIH Grants Policy Statement says:
 

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. As long as the costs charged are allowable, allocable, and reasonable under the applicable cost principles and the grantee's financial management system includes adequate internal controls (e.g. no one person has complete control over all aspects of a financial transaction), a grantee may allocate costs normally assignable to multiple projects to one of those projects.
3. The method for allocating direct costs to multiple projects must be identified in advance of the allocation and documented so a person unfamiliar with research administration would understand. 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.
4. The following are charges that may be allocated to multiple projects:
  - a. Number of 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 of the costs will be allocated to project B
  - c. Rates established by a service center or other lab that highly correlates with the cost being allocated, e.g. animal facility charges
  - d. An inventory tracking sheet



5. Cost methods should not be allocated to multiple projects based on the following:
  - a. Budget overexpenditures
  - b. Expending remaining unspent funds
  - c. Rotating costs between projects
  - d. Pro-rated square footage

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

It is SFSU's procedure to not "waive" (e.g. charge a lower amount than the federally negotiated rate) F&A except when required by sponsor procedure. F&A costs are paid to SFSU as a percent of direct expenditures. Approximately every four years, SFSU negotiates an F&A cost agreement with their cognizant government agency (Department of Health and Human Services). The SFSU F&A cost rate states the amount of F&A costs in a percent that the government will reimburse to SFSU ([http://www.sfsu.edu/~orspwww/postaward/grantspolicies/sfsu\\_idcagreement.pdf](http://www.sfsu.edu/~orspwww/postaward/grantspolicies/sfsu_idcagreement.pdf)).

#### **▪ Federal**

The percent listed on the SFSU F&A cost rate (see above) should be used except for programs that publish a lower rate such as training grants, career awards, certain RFP's or RFA's, etc. Depending on where the research is taking place (on-campus or off-campus) or what type of research (basic research or other sponsored activities) different rates will apply.

#### **▪ Non-Federal**

Many non-federal sponsors, such as foundations, limit the F&A amount that they will pay. In these cases, it is SFSU procedure to charge the maximum amount allowed by the sponsor, if the sponsor's rates are published, or negotiate directly with a sponsor to come to a mutually agreeable rate.

#### **▪ Sub-Contracts**

It is important to determine the original source of funding on any "sub-in" or "sub-out" agreement. It may be federal ("pass-thru") or non-federal. Based on this determination, the appropriate criteria listed above should be used to determine the F&A rate.

## **ROLES AND RESPONSIBILITIES**

### **Academic Department**

#### **▪ Principal Investigator (PI)**

- Is responsible for understanding sponsor and SFSU guidelines
- Ensures that costs are appropriately and consistently budgeted and applied to sponsored projects.
- Documents transactions in compliance with this procedure.

#### **▪ Department Administrator**

- Is responsible for understanding sponsor and SFSU guidelines
- Ensures that costs are appropriately and consistently budgeted and applied to sponsored projects.
- Documents transactions in compliance with this procedure.

**Office of Research and Sponsored Programs (ORSP)**

- **Pre-Award**
  - Completes a review of proposal budgets for compliance with this procedure, other SFSU procedures, and sponsor requirements.
  - Provides clarification (when needed) for how costs should be budgeted for sponsored projects to Principal Investigators and department administrators.
- **Post-Award**
  - Reviews costs that are directly charged to a sponsored project for consistency with sponsor and SFSU guidelines.
  - Provides clarification (when needed) for how costs should be charged to sponsored projects to Principal Investigators and department administrators.

**RELATED DOCUMENTS**

- [OMB Circular A-21, “Cost Principles for Educational Institutions”](#)
- [OMB Circular A-110, “Uniform Administrative Requirements for Grants and Agreements with Higher Education, Hospitals and Other Non-Profit Organizations”](#)
- [NIH Grants Policy Statement](#)

**APPENDIX**

<b>Cost Items</b>	
<b><u>Selected Cost Items</u></b>	<b><u>Applicable A-21 section</u></b>
Advertising and public relations costs	Unallowable with stipulations. A-21 J (1)
Advisory councils	Allowable with stipulations. A-21 J(2)
Alcoholic beverages	Unallowable. A-21 J (3)
Alumni/ae activities	Unallowable. A-21 J (4)
Audit and related services	Allowable with restrictions as addressed in OMB Circular A-133. A-21 J (5)
Bad debts	Unallowable. A-21 J (6)
Bonding costs	Allowable with stipulations. A-21 J (7)
Commencement and convocation costs	Unallowable except for provisions in A-21 F (9). A-21 J (8)
Communication costs	Allowable. A-21 J (9)
Compensation for personal services	Allowable. A-21 J (10)

Contingency provisions	Unallowable with stipulations. A-21 J (11)
Deans of faculty and graduate schools	Allowable. A-21 J (12)
Defense and prosecution of criminal and civil Proceedings, claims, appeals and patent infringement	Unallowable with stipulations. A-21 J (13)
Depreciation and use allowances	Allowable with stipulations. A-21 J (14)
Donations and contributions	Unallowable. A-21 J (15)
Employee morale, health, and welfare costs	Allowable. A-21 J (16)
Entertainment costs	Unallowable. A-21 J (17)
Equipment and other capital expenditures	Allowable with stipulations. A-21 J (18)
Fines and penalties	Unallowable with stipulations. A-21 J (19)
Fund raising and investment costs	Unallowable with stipulations. A-21 J (20)
Gains and losses on depreciable assets	Allowable with stipulations. A-21 J (21)
Goods or services for personal use	Unallowable. A-21 J (22)
Housing and personal living expenses	Unallowable. A-21 J (23)
Idle facilities and idle capacity	Unallowable with stipulations. A-21 J (24)
Insurance and indemnification	Allowable with stipulations. A-21 J (25)
Interest	Allowable with stipulations. A-21 J (26)
Labor relations costs	Allowable. A-21 J (27)
Lobbying	Unallowable with stipulations. A-21 J (28)
Losses on other sponsored agreements or contracts	Unallowable. A-21 J (29)
Maintenance and repair costs	Allowable. A-21 J (30)
Material and supplies costs	Allowable. A-21 J (31)
Meetings and conferences	Allowable. A-21 J (32)
Memberships, subscriptions and professional activity costs	Allowable with stipulations. A-21 J (33)
Patent costs	Allowable with stipulations. A-21 J (34)
Plant and homeland security costs	Allowable. A-21 J (35)
Pre-agreement costs	Unallowable with stipulations. A-21 J (36)

Professional service costs	Allowable. A-21 J (37)
Proposal costs	Unallowable, possibly captured in F&A Cost. A-21 J (38)
Publication and printing costs	Unallowable with stipulations. Possibly captured in F&A Cost. A-21 J (39)
Rearrangement and alteration costs	Allowable. A-21 J (40)
Reconversion costs	Allowable. A-21 J (41)
Recruiting costs	Allowable with stipulations. A-21 J (42)
Rental costs of buildings and equipment	Allowable with stipulations. A-21 J (43)
Royalties and other costs for use of patents	Allowable with stipulations. A-21 J (44)
Scholarships and student aid costs	Allowable with stipulations. A-21 J (45)
Selling and marketing	Unallowable with stipulations. A-21 J (46)
Specialized service facilities	Allowable. A-21 J (47)
Student activity costs	Unallowable with stipulations. A-21 J (48)
Taxes	Allowable. A-21 J (49)
Termination costs applicable to sponsored agreements	Allowable with stipulations. A-21 J (50)
Training costs	Allowable. A-21 J (51)
Transportation costs	Allowable. A-21 J (52)
Travel costs	Allowable with stipulations. A-21 J (53)
Trustees	Allowable. A-21 J (54)