

DIRECT COST POLICY

I. POLICY STATEMENT

The purpose of this policy is to ensure compliance with the standards set forth in 2 CFR Part 200, Subpart E., (commonly referred to as Uniform Guidance). Adherence to these cost principles and practices by Auburn University is necessary to prevent cost disallowances, penalties, and/or fines.

II. POLICY PRINCIPLES

This policy establishes consistent practices for defining, charging, and coding direct and facilities and administrative (F&A or indirect) costs to Auburn University FOAPs. These practices must be consistently applied in like circumstances for all sponsored projects and any other institutional activity affecting sponsored projects.

III. EFFECTIVE DATE

April 1, 1999

IV. APPLICABILITY

This policy applies to all sponsored projects and is the responsibility of Principal Investigators and their responsible departments, Contracts and Grants Accounting, and the Office of Sponsored Programs.

Principal Investigator (PI) or his/her responsible department

- Develop budgets which are consistent with the costing practices defined in this policy
- Understand and comply with this policy in order to meet federal costing standards
- Ensure that costs are allocated in a manner that is an accurate reflection of the expenses incurred for the benefit of the project(s) being charged

Contracts and Grants Accounting

- Determine proper treatment of costs

Office of Sponsored Programs

- Ensure proposal budgets include approved direct costs or include the necessary justifications to verify budgeted costs are appropriately designated as direct costs

V. POLICY MANAGMENT

Responsible Office: Contracts and Grants Accounting

Responsible Officer: Director, Contracts and Grants Accounting

Responsible Executive: Vice President for Business & Finance and CFO

VI. DEFINITIONS

2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

Total Cost: As defined by 2 CFR Part 200.402, the total cost of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits. Except where otherwise authorized by statute, in order to be allowable under Federal awards costs must:

- Be **necessary** and **reasonable** for the performance of the Federal award and be **allocable** thereto under these principles.
- Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- Be adequately documented.

Reasonable Cost: As defined by 2 CFR Part 200.404, a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- Market prices for comparable goods or services for the geographic area.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.
- Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Allocable Cost: As defined by 2 CFR Part 200.405, a cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- Is incurred specifically for the Federal award;
- Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons.

Direct Costs: As defined by 2 CFR Part 200.413, direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities with relative ease and a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

Facilities and Administrative Costs (F&A or Indirect Costs): costs that are incurred for common and/or joint objectives and therefore cannot be specifically and readily identified with a particular sponsored activity.

Federal Project: a project (grant, contract or cooperative agreement) which is funded by the federal government. If federal funds are passed through any other entity before arriving at Auburn, it is still considered a federal project.

FOAP is the Fund, Organization, Account, and Program code used to record financial transactions in Banner.

Non-federal Project: a project (grant, contracts or cooperative agreement) which is not funded by the federal government

Cost Objective: a program, function, activity, award, organizational subdivision, contract, or work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A cost objective may be a major function of the non-Federal entity (in other words, a major function of Auburn University), a particular service or project, a Federal award, or an indirect cost (F&A cost) activity.

Intermediate Cost Objective: a cost objective that is used to accumulate indirect costs or service center costs that are subsequently allocated to one or more indirect cost pools and/or final cost objectives.

Final Cost Objective: a cost objective which has allocated to it both direct and indirect cost and, in the non-Federal entity's (AU's) accumulation system, is one of the final accumulation points, such as a particular award, internal project, or other direct activity of a non-Federal entity.

VII. POLICY PROCEDURES

7a. Charging direct costs to federally sponsored projects

Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. Typical costs charged directly to a Federal award are:

- Salary, Wages and Employee Benefits
- Project-specific or Scientific Materials and Supplies
- Travel
- Professional Services
- Animal Care Costs
- Sub-award Costs
- Scientific Equipment

Items generally designated as indirect costs may be treated as direct costs if incurred for different purpose or in unlike circumstances. These costs may be charged directly to federally sponsored activities when:

1. The services or materials are required by the scope of the project.
2. The costs can be accurately identified with the project.
3. The specific type and nature of the services or materials are significantly greater than ordinarily required by a sponsored project, and
4. The cost is clearly disclosed and fully justified in the proposal budget and approved by the sponsor in the awarded document. Keep in mind that just because the cost is in the budget does not mean that it is an allowable charge to the project. The burden is on Auburn to ensure compliance with institutional policies and federal regulations.

With approval of the sponsor, re-budgeting for these costs is permitted provided the first three criteria are met. Costs that have been properly determined to be direct costs shall be assigned or allocated to each project using proportional allocations, that is, benefitting two or more projects or activities in proportions that can be determined without undue effort or cost.

7b. Unacceptable direct cost charging practices

The following examples are unacceptable practices for direct charging on federally-sponsored projects or any other institutional activity affecting federally-sponsored projects:

- rotating charges among projects without establishing that the rotation schedule accurately reflects the relative benefit to each project during the specified period of time;
- assigning charges to a project on the basis of the remaining balance to resolve funding problems;
- charging the budgeted amount in contrast to charging an amount based upon actual usage;
- assigning charges to an award before the cost is incurred;
- charging an expense exclusively to an award when the expense has supported other activities;
- assigning charges that are part of the normal administrative support for awards (e.g. proposal preparation, accounting, payroll, routine preparation of purchase orders and vouchers);
- applying a "departmental tax" to projects for clerical, secretarial, and administrative costs or prorated costs for office supplies, telephone bills, photocopier usage and the like, and

- charging costs incurred for multiple projects or functions to several sponsored projects when there is difficulty determining the benefit of the cost to each sponsored project.

7c. Guidelines for Charging Indirect-type Costs as Direct Costs

Federal regulations recognize that there may be circumstances where exceptions are justified and indirect-type costs may be chargeable as direct costs. Size, nature of work, location, and complexity of federally-sponsored projects, although not the final determining factors, are important considerations. The existence of special circumstances must be evaluated on a case-by-case basis.

The Principal Investigator must first determine that the indirect-type costs are necessary for the successful conduct of the project. If so, they must be documented and fully justified in the budget narrative at the proposal submission stage (when identifiable at that time) or during the term of an existing award when extenuating circumstances have arisen. The Office of Sponsored Programs or Contracts and Grants Accounting will review the justification to verify whether or not the costs meet the conditions of this policy.

7d. Discussion of Selective Items Normally Charged as Indirect Costs

CLERICAL AND ADMINISTRATIVE PERSONNEL

Although it is recognized that there are differences in staffing among the various academic units, a core of clerical and administrative personnel exists within each department to support the various missions of the unit. These personnel provide a broad range of general support service, including secretarial assistance, the procurement of materials and services, accounting and bookkeeping, proposal preparation, payroll and human resource tasks, and department and/or college leadership. The costs of these activities should be recovered through indirect cost recoveries. Therefore, the salaries of personnel engaged in providing this type of baseline departmental service cannot normally be charged as direct costs to federally sponsored projects.

However, clerical and administrative personnel may be considered as direct costs and appropriately charged to federally sponsored projects, or institutional FOAPs that charge federally sponsored projects such as Service Centers when all of the following apply:

1. The clerical or administrative services provided are integral to the project or activity.
2. The individuals involved can be specifically identified with the project or activity.
3. The costs are explicitly included in the budget or have the prior written approval of the awarding agency.
4. The costs are also not recovered as indirect costs.

Generally, department or college faculty administrators, if included in the budget, will be assumed by the sponsor to be involved in the technical aspects of the project.

The Office of Sponsored Programs, in conjunction with Contracts and Grants Accounting, will review the approved budget to verify whether or not the costs meet the conditions of this policy.

Generally, department or college faculty administrators, if included in the budget, will be assumed by the sponsor to be involved in the technical aspects of the project.

7e. Non-Labor Indirect-Type Costs

Non-labor costs such as general office supplies, postage, local telephone charges, photocopying, and non-capital, general purpose equipment are normally considered indirect costs. For the following, select types of costs, independent and verifiable cost documentation must be maintained when directly charging to a federally sponsored project. The determination to direct charge these types of costs is similar in nature to the determination process for salary costs. Examples of non-labor costs normally charged as indirect costs are as follows:

1. General Office Supplies

General office supplies such as paper, pens, pencils, staples, calendars, paper punches, printers, print cartridges, storage devices, computer cables, and computer monitors are usually considered as indirect costs. However, supplies that qualify are:

- significant in quantity and cost to the project;
- completely consumed in the course of the project;
- not used for other purposes, and
- assigned with relative ease and with a high degree of accuracy may be charged as direct costs.

Projects such as center awards, clinical trials and epidemiology studies, due to their size, nature and complexity, may require office supplies well beyond the normal volume of office supplies required to operate the department business functions, and therefore may be charged as direct costs to the project. However, the requirement must be justified in the proposal and/or award budget.

2. Computing Devices

Computing devices are defined by 2 CFR 200 as *"machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or "peripherals") for printing, transmitting and receiving, or storing electronic information."* Given that computers are generally used for a variety of functions including instruction, research, and administration, desktop and laptop computers and tablets (including, but not limited to, i-pads and the like); printers; and external storage devices are normally considered indirect costs. However, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a federal award. Important considerations are the actual use of the computer, the degree to which the cost are described and explained the sponsor-approved budget, or the documentation of the methodology regarding cost allocation.

The Office of Sponsored Programs, in conjunction with Contracts and Grants Accounting, will review the proposal, award and/or budget documents to verify whether or not the costs meet the conditions of this policy.

3. Postage/Express Mail Charges

Postage charges for routine and general business correspondence are normally considered as indirect costs. However, costs incurred for projects that require mass mailings or courier services for shipment of scientific samples or materials where the costs are assigned with relative ease and with a high degree of accuracy to the project may be charged as direct costs.

4. Recurring Phone/Local (including installation and maintenance)

All phone charges except long distance calls that can be specifically identified to an activity are normally considered as indirect costs. Phones (instrument and line charges, installation and de-installation charges) can be charged directly only when these costs are necessary for the performance of the project and are dedicated to a single project. Examples of federally sponsored projects where direct charging of recurring phone/local charges may be appropriate are for center awards and single projects heavily dependent upon phones.

5. Cell phones and other communication devices

As indicated the Cellular Device and Service Policy, the cost of devices and services would not typically be an allowable direct charge to a contract or grant.

6. Photocopies

Ordinarily photocopies are considered as indirect costs because of their general business nature. However, when the photocopies are grant specific, significant, and necessary for the conduct of the scope of work (such as a workshop or class identified at the proposal stage) they can be charged to grants or contracts.

7. Books and Subscriptions

Books and subscriptions are not allowed on most research projects, unless there is a unique need. Training grants may be able to justify the cost for trainees because of the nature of the project.

8. Service Centers and Department Recharge FOAPs

When developing a rate, units, organizations or departments that provide services predominately to colleges and departments accumulate their costs to operate the venture and charge customers, especially federally sponsored projects. These service or recharge centers must consistently treat costs as direct or indirect in like circumstances.

Departments should not create recharge accounts such as secretarial support pools or photocopying centers to circumvent this policy. It is the responsibility of the Principal Investigator to justify the direct charge of Service Centers and department recharge accounts' goods and services to federally sponsored projects. Direct charges of service or recharge center activities must be supported by documentation of an approved or reviewed rate; unapproved service or recharge center are not allowable on a Federal

award. Contact Financial Reporting for additional details.

7f. Charging direct costs to non-federally Sponsored Activities

The direct charging of items normally considered indirect costs shall not be used in lieu of or to reduce indirect cost recovery at the appropriate, negotiated indirect cost rate.

If a non-federal sponsor using non-federal funds has no objections to the direct reimbursement of indirect costs, and the approved budget and/or award allows it, no justification is necessary and the degree of disclosure is determined by the requirements of the sponsor.

Where a non-federal sponsor consistently and universally limits indirect cost recovery to a rate less than the applicable negotiated rate, items normally treated as indirect costs may be charged as direct costs.

VIII. SANCTIONS

Costs determine to be more appropriately classified as F&A costs may be transferred off the sponsored FOAP to a university FOAP.

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Revised 10/1/2016

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IX. EXCLUSIONS

This policy applies to all sponsored agreements. Any exceptions shall be reviewed by the offices of the Vice President for Research & Economic Development, Vice President for Business & Finance and CFO, Director of Contracts and Grants Accounting, or other designee and may be granted on a case-by- case basis.

X. INTERPRETATION

The offices of the Vice President for Research & Economic Development, Vice President for Business & Finance and CFO, Director of Contracts and Grants Accounting, or other designee will determine appropriate application for each contract, grant or cooperative agreement involved.