

## Direct vs. Indirect Costs Introduction



### Agenda

- Definition of direct costs and indirect costs
- Criteria for assigning costs to projects
- Charging administrative costs to Federal awards
- Components and calculation of indirect cost rate

- Direct costs are “those 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 relatively easily with a high degree of accuracy.” (OMB Circular A-21, Section D.1.)

- Salaries, wages, and fringe benefits of faculty, research associates, postdoctoral fellows, technicians, lab assistants, students performing scientific or technical work, engineers, and other scientific professionals.
- Materials and supplies such as chemicals, glassware, compressed gases and liquids, and research supplies
- Other direct costs such as travel, consulting services, equipment, toll charges, express mail, subject costs, animal care, and subcontracts.

- Indirect costs are “those [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.” (OMB Circular A-21, Section E.1)

- Services of the accounting staff and research administrators
- Salaries of personnel engaged in a broad range of departmental support activities
- Cost of utilities for a building housing multiple research projects and other functions
- Office supplies, postage, local telephone and communications infrastructure
- Depreciation on building and improvement and equipment
- Cost of Interest
- Cost of Library

Ask these questions when assigning a cost:

- Is it allowed per Federal Regulations and sponsor terms?
- Is it reasonable? – What a prudent person would spend.
- Is it a project specific cost?
- Can it be assigned to the project relatively easily and with a high degree of accuracy?
- Is it treated consistently as direct charges under similar circumstances across campus?

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- Federal regulations (OMB Circular A-21 and the Federal Cost Accounting Standards) require that the same type of costs be treated consistently as direct or indirect costs.
- Consistency means that costs incurred for the same purpose, in like circumstances, must be treated uniformly as either direct costs or as indirect costs.
- When a cost is charged to an award directly, similar costs should not be included in the indirect cost rate. Vice versa, if a cost is included in the indirect cost rate, then similar costs should not be charged directly.

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- Several types of costs pose challenges for institutions when classifying direct and indirect costs:
  - Administrative and clerical salaries
  - Other administrative costs such as office supplies, postage, local telephone services, and memberships

- Typically, administrative and clerical salaries are a component of indirect costs.
- Charging administrative and clerical salaries may be allowable when:
  - Effort can be specifically identified to a project
  - The costs are specifically budgeted, justified, and approved by the sponsor
  - The project requires significant administrative and/or clerical support that is beyond the normal level of such services provided by academic departments. – Such a project is defined by OMB Circular A-21 as a “major” project

- Large, complex programs such as General Clinical Research Centers, Primate Centers, Program Projects, environmental research centers, engineering research centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.
- Projects that involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting (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.
- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- Projects that are geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research field sites that are remote from campus.
- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communications.

- Administrative costs such as office supplies, postage, local telephone services, and memberships are normally treated as indirect costs. (OMB Circular A-21, F.6.b.)
- These costs may be charged directly when
  - A project has a special need for an item or service that is beyond the level of services normally provided by departmental administration.
  - The costs benefit the project specifically.
  - The costs can be assigned easily with a high degree of accuracy.
  - Consistently treated across campus
- The consistency rule is the most difficult to manage, therefore, UA's Direct and Indirect Costs Policy requires these types of costs specifically budgeted, justified, and approved by the sponsoring agency.

- Institutional allowance – for fellowship awards
  - “The institutional allowance is a fixed amount. Expenditures under institutional allowances are not subject to NIH prior-approval requirements, and the institution is not required to account for these expenditures on an actual cost basis.” (NIH Grants Policy Statement 2003)
  - Institutional allowance can be used for the individual fellow on items such as research supplies, equipment, travel to scientific meetings, and health insurance. It can also be used to defray administrative costs of training.
- Training-related expenses – for institutional research training awards
  - These funds are provided to defray costs such as staff salaries, consultant costs, equipment, research supplies, staff travel, and other expenses directly related to the training program. (NIH Grants Policy Statement 2003)

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- Indirect costs associated with sponsored awards are recovered via applying indirect cost rate, also known as Facilities and Administration (F&A) Rate.
- The F&A rate represents the average amount of indirect costs that are incurred for each direct dollar spent for federally sponsored programs.
- The F&A rate is calculated by the institution and negotiated with the cognizant Federal agency.

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- Facilities Costs
  - Depreciation on buildings and improvements
  - Interests
  - Operations and maintenance
  - Library
  
- Administration Costs
  - General administration
  - Department administration
  - Sponsored projects administration

Example: on-campus organized research F&A rate

$$\text{F\&A Rate} = \frac{\text{F\&A Costs Allocated to Organized Research}}{\text{Organized Research Base (Modified Total Direct Costs*)}}$$

- \* Modified Total Direct Costs (MTDC) include all direct project costs minus these items:
- Equipment,
  - Capital expenditures,
  - Patient care,
  - Tuition remission,
  - Rental costs,
  - Scholarships and fellowships, and
  - Subcontract in excess of \$25,000 per contract.



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