

<b>System-wide Policy:</b>	
<b>FI0206 - Sponsored Projects - Distinguishing Direct vs Indirect Costs</b>	
<b>Version: 1</b>	<b>Effective Date: 10/01/2017</b>

## FI0206 – Sponsored Projects – Distinguishing Direct vs Indirect Costs

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### Objective:

The purpose of this policy is to provide policies and procedures for distinguishing between direct and indirect (Facilities and Administrative/F&A) costs on grants and contracts. This policy will address federal, federal flow-through and non-federal projects. Several reference material documents are also included.

### Policy:

#### Federal and Federal Flow-Through

#### Direct Costs and Facilities & Administrative Costs

University policy requires that grants and contracts bear the full cost of the sponsored project to the maximum extent possible. Full cost includes the direct and F & A costs at the full rate that has been negotiated with and approved by the federal audit agency for the particular campus or institute performing the sponsored project.

#### 1. Direct Costs

When charging expenses to federal and federal flow-through sponsored projects, university faculty and staff must ensure the appropriateness of the charges. The

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guidelines below are designed to assist in determining the appropriateness of certain charges on either federal awards to the university or awards to the university that involve pass through of federal funds. These clarify certain details of charges that are allowable as direct costs under the restrictions included in [Office of Management and Budget \(OMB\) Uniform Guidance](#). While the explicit language of the OMB Uniform Guidance should be used to clarify any situation arising regarding allowable charges, these guidelines may be referred to in justifying charges included in proposals submitted for approval by the appropriate UT pre-award office. These guidelines are not intended to be exhaustive but do include specific mention of cases that are known to arise and that may not be immediately determinable from the OMB Uniform Guidance.

- a. **Allocable.** The cost must have a direct benefit and be directly attributable to the project or activity being performed. For example, an investigator purchases a piece of equipment necessary to conduct a sponsored project. This equipment is *allocable* to that project and can be charged as a direct cost to the project. The investigator also purchases office supplies for general office use. These office supplies are not directly attributable to a specific project and are therefore *not allocable* and cannot be charged as a direct cost to the project.
- b. **Allowable.** The cost must be allowed by university policy, sponsor policies, and OMB Uniform Guidance. For example, an investigator has three lab technicians working on a project and charges their salaries to the project. These are allowable costs to the project and can be charged as direct costs. The investigator takes the three lab technicians out to lunch during the project. This expense is an unallowable cost to the project and cannot be charged as a direct cost. (See a list of **Unallowable Costs** on federal and federal flow-through sponsored projects.) These costs should not be proposed or charged on a federally-funded sponsored project. For more detailed information about these unallowable costs, see Uniform Guidance, Subpart E Cost Principles, General Provisions for Selected Items of Cost §200.420 – 200.475

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- c. **Reasonable and Necessary.** The cost must be reasonable and necessary for the performance of the project. For example, an investigator purchases lab supplies needed for the work on the project. These supplies are reasonable and necessary to the performance of the project and can be charged as direct costs. The investigator also purchases a new microscope that was on sale at the store. The microscope is not needed for the current project but may be needed for an upcoming project. This expense is not reasonable and necessary for the performance of the current project and therefore cannot be charged as a direct cost.
- d. **Consistently Treated.** All costs incurred for the same purpose, in like circumstances are either direct or F & A costs only. The university cannot double-charge the government for similar costs by directly charging a cost to a sponsored project and by including the same type of cost in the F & A rate charged to the sponsored project. For example, a bookkeeper purchases stamps for the department. Investigator A uses five stamps for various mailings related to his project and Investigator B uses eight stamps for various mailings related to her project. If the cost of the stamps is included as a direct cost on Investigator A's or B's sponsored project, and similar costs (stamps) incurred in like circumstances (general purpose) are included in the university's F & A rate, the cost of stamps is not treated consistently.

Any expense that does not meet all of these criteria should not be directly charged to a federally sponsored project. The fact that a cost requested in a budget is awarded as requested does not ensure a determination of allowability. The university is responsible for presenting costs consistently and must not include costs associated with its F&A rate as direct costs. See attached **Examples** of costs normally considered to be direct costs versus F & A costs. Additional details to provide guidance to faculty and staff follow below.

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## 2. Circumstances under Which Costs Generally Considered F&A can be Direct Costs

Administrative costs such as salaries for clerical positions or items such as office supplies and postage are generally viewed by the federal government as facilities and administrative (F & A) costs. Within limited circumstances, administrative costs may be directly charged to a federal or federal flow-through sponsored project. The rules for directly charging these administrative costs are found in Uniform Guidance Subpart E, Cost Principles.

If any of the items below are not approved in the proposal budget by the sponsor, prior justification and approval will be required and must be submitted to the designated pre or post award campus/institute office identified in section 7 below. Some campuses or institutes will require forms that support the allocability. In some cases prior sponsor approval will be required.

- a. **Administrative / Clerical Salaries: *Uniform Guidance §200.413(c)*** 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 **all** of 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 also not recovered as F & A costs. This item refers to the categorizing of the costs and this is handled when the F&A rate is negotiated.

\* Integral/Essential is defined as being absolutely necessary for the completion of the statement of work. Administrative or Clerical personnel are integral/essential to a project if they are directly supporting the projects statement of work. How the Administrative or Clerical personnel

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are directly supporting the project must be detailed in the proposal, budget and budget justification.

Further, the Guidance clarifies that direct charged administrative or clerical services must be integral to a project or activity-as opposed to necessary to the overall operation of the institution and assignable in part to sponsored projects. For example, the clarification in the Uniform Guidance highlights that salary for an administrative assistant completing financial reconciliations should not be divided and charged directly to all sponsored awards under a PI or department. Although financial reconciliations are necessary to the overall execution of the project, this is true of all sponsored and non-sponsored activities and these types of services cannot be considered "integral" to the project's goals and objectives.

- b. Clerical and administrative personnel salary charged to sponsored projects is not intended to be additional pay or overtime pay. The amount or percent effort identified in the proposal and worked during the period of performance will be paid directly from the grant as part of the employee's base pay at no more than their regularly hourly rate.

Overtime pay is normally not allowed on federal grants and contracts.

- c. *Uniform Guidance* Appendix III, B.6.(b.)(2): "Items such as office supplies, postage, local telephone costs, and memberships must normally be treated as indirect (F & A) costs." If these items are proposed as direct costs, they must be specifically identified in the sponsor's approved proposal budget and budget justification.
- d. Materials and supplies used for the performance of a Federal award may be charged as direct costs. (i.e. lab supplies, workshop materials)
- e. Computing Devices: Per *Uniform Guidance* §200.453(c), "In the specific case of computing devices, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the

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performance of a Federal award." Thus, general purpose computing devices, for example those used by faculty in carrying out the variety of activities required of them in meeting their responsibilities for teaching, research, and service, are allowable as direct charges if the use of such computers is essential to carry out the activities of a sponsored project. If these items are proposed as direct costs, acceptable justification will be required to be included in the proposal submitted to the sponsor. If not previously approved in the proposal budget by the sponsor, purchases made after award will require justification and approval from the designated pre or post award campus or institute office identified in section 7 below, which could include campus or institute specific forms that support the allocability.

Uniform Guidance §200.94 permits computing devices to be defined as supplies "...if the acquisition cost is less than the lesser of the capitalization level established by the non-Federal entity for financial statement purposes or \$5,000, regardless of the length of its useful life." Thus, computing devices that cost less than \$5,000 are to be budgeted as supplies. If the computers cost between \$1,500 and \$5,000, they should be paid for as sensitive minor equipment.

Computing devices specifically required for the completion of the project must be explicitly identified in the initial budget and budget justification submitted in the proposal for the project.

The Uniform Guidance defines computing devices 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, as well as removable devices such as USB devices."

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- f. If a principal investigator wishes to charge any of the type of expenditures described above directly to a federal or federal flow-through sponsored project, the following criteria must be satisfied:
- The charges must be clearly spelled out in the initial budget and budget justification submitted to the sponsoring federal agency.
  - An explanation of why these charges should be made directly to the project should be provided, and the relationship of the charges to the scope of the work of the project should be clearly identified in the proposal.
  - For clerical and administrative salary costs, it is important to describe how the nature of the work performed differs from routine clerical services provided in the department (and is considered significantly greater) and how this work is an integral and essential part of achieving the programmatic goals of the project.

### 3. **Facilities and Administrative (F&A) Costs**

Facilities and administrative costs (also called indirect costs) are usually stated as a percentage of modified total direct costs for larger university entities and as a percentage of salaries and wages for smaller entities. Modified total direct costs are the total of all direct costs except for the following cost elements: student maintenance fees (4441XX), cost sharing (4444XX), equipment (461XXX), and subcontract amounts exceeding \$25,000 (4821XX), real estate rental (4413XX), patient care costs (444200), and participant support costs (XXXXXX). Any student maintenance fees that are charged not using the 4441XX GL code or any other costs that do not recover F&A costs should be charged on a separate WBS with 100% F&A cost share.

F&A costs include use allowances, operations and maintenance expenses, general and administrative expenses, departmental administration expenses, sponsored projects administration, library expenses, and student administration and services. Lease and rental

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expenses, along with utility charges and basic service charges (including phones, network port charges, building maintenance fees, etc.) are allowable as direct expenses if the location of the activity is not owned by the university.

Participant support costs are direct cost for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with meetings, conferences, symposia, or training projects. These costs are allowable with the prior approval of the awarding agency.

### Non-Federal Sponsors

For non-federal sponsors, the rules and regulations of each sponsor and UT fiscal policy will dictate the allowable and non-allowable costs.

### **Direct Costs and Facilities & Administrative Costs**

University policy requires that grants and contracts bear the full cost of the sponsored project to the maximum extent possible. Full cost includes the direct and F & A costs at the full rate that has been negotiated with and approved by the federal audit agency for the particular campus or institute performing the sponsored project. F&A must be included in the proposal to non-federal sponsors. If a non-federal sponsor has a published or provides written documentation from the sponsoring entities authorized representative of an indirect cost rate different than UT's negotiated rate, the non-federal sponsor's rate will be applied. If the sponsor does not pay F&A, official documentation from an authorized representative of the sponsor will be required prior to submission of the proposal to the sponsor. Each UT campus or institute may have a process and/or form that is required when F&A will not be requested. Defer to your specific campus or institute office listed on item 7 below with questions.

#### **4. Direct Costs**

When charging expenses to non-federal sponsored projects, university faculty and staff must ensure the appropriateness of the charges. The guidelines below

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are designed to assist in determining the appropriateness of certain charges on non-federal sponsored projects. These clarify certain details of charges that are allowable as direct costs unless the non-federal sponsor's guidelines specify otherwise.

- a. **Allocable.** The cost must have a direct benefit and be directly attributable to the project or activity being performed.
- b. **Allowable.** The cost must be allowed by university policy and sponsor policies.
- c. **Reasonable and Necessary.** The cost must be reasonable and necessary for the performance of the project.
- d. **Consistently Treated.** All costs incurred for the same purpose, in like circumstances, are either direct or indirect costs only. The university cannot double-charge the government for similar costs by directly charging a cost to a sponsored project and by including the same type of cost in the F & A rate charged to the sponsored project.

The fact that a cost requested in a budget is awarded as requested does not ensure a determination of allowability. The university is responsible for presenting costs consistently. Additional details to provide guidance to faculty and staff follow below.

## 5. **Circumstances Under Which Costs Generally Considered F&A can be Direct Costs**

Administrative costs such as salaries for clerical positions or items such as office supplies and postage are generally viewed as facilities and administrative (F & A) costs. Within limited circumstances, administrative costs may be directly charged to a sponsored program if the non-federal sponsor approves it and it is considered \*integral/essential to the project. The rules for directly charging these administrative costs should be found in the non-federal sponsor's project guidelines.

\* Integral/Essential is defined as being absolutely necessary. Administrative or Clerical personnel are integral/essential to a project if they are directly supporting

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the projects statement of work. How Administrative or Clerical personnel are directly supporting the project must be detailed in the proposal, budget and budget justification.

- a. Clerical and administrative personnel salary charged to sponsored projects is not intended to be additional pay or overtime pay. The amount or percent effort identified in the proposal and worked during the period of performance will be paid directly from the grant as part of the employee's base pay at no more than their regularly hourly rate.
- b. Items such as office supplies, postage, local telephone costs, and memberships may be proposed as direct costs if they are required, are integral to the project, and the non-federal sponsor allows these items.
- c. Materials and supplies used for the performance of a non-Federal award may be charged as direct costs. (i.e. lab supplies, workshop materials).
- d. General purpose computing devices, for example those used by faculty in carrying out the variety of activities required of them in meeting their responsibilities for teaching, research, and service, are allowable as direct charges if the use of such computers is essential to carry out the activities of a sponsored project.

Computing devices that cost less than \$5,000 are to be budgeted as supplies. If the computers cost between \$1,500 and \$5,000, they should be paid for as sensitive minor equipment.

Computing devices specifically required for the completion of the project must be identified in the initial budget and budget justification submitted in the proposal.

Computing devices is defined 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, as well as removable devices such as USB devices.

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- e. If a principal investigator wishes to charge any of the type of expenditures described above directly to a non-federal sponsored project, the following criteria should be addressed:
- The charges should be clearly spelled out in the initial budget and budget justification submitted to the sponsoring agency.
  - An explanation of why these charges should be made directly to the project should be provided, and the relationship of the charges to the scope of the work of the project should be clearly identified in the proposal.
  - For clerical and administrative salary costs, it is important to describe how the nature of the work performed differs from routine clerical services provided in the department (and is considered significantly greater) and how this work is an integral and essential part of achieving programmatic goals of the project

## 6. Facilities and Administrative (F&A) Costs

Facilities and administrative costs (also called indirect costs) are usually stated as a percentage of modified total direct costs for larger university entities and as a percentage of salaries and wages for smaller entities. Modified total direct costs are the total of all direct costs except for the following cost elements: student maintenance fees (4441XX), cost sharing (4444XX), equipment (461XXX), and subcontract amounts exceeding \$25,000 (4821XX), real estate rental (4413XX), and patient care costs (444200), and participant support costs (XXXXXX). Any student maintenance fees that are charged not using the 4441XX GL code or any other costs that do not recover F&A costs should be charged on a separate WBS with 100% F&A cost share.

F&A costs include use allowances, operations and maintenance expenses, general and administrative expenses, departmental administration expenses, sponsored projects administration, library expenses, and student administration and services. Lease and rental expenses, along with utility charges and basic service charges (including phones, network port charges, building maintenance

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fees, etc.) are allowable as direct expenses if the location of the activity is not owned by the university.

## Questions

Campus/Institute	Direct Charges in Proposals	Direct Charges after Awards
UTC	Research & Sponsored Programs	Business & Financial Affairs
UTHSC & UTCOM	Research Administration	Sponsored Projects Accounting
IPS	Chief Business Officer	Chief Business Officer
UTIA	Sponsored Programs	Sponsored Accounting
UTK	Office of Sponsored Programs (OSP)	Office of Sponsored Programs (OSP)
UTM	Research, Grants, and Contracts	Research, Grants, and Contracts
UTSI	Grant Administration	Grant Administration

## **PROCEDURES**

Knoxville:	<a href="http://budget.utk.edu/fiscal-policy/">http://budget.utk.edu/fiscal-policy/</a>
Health Science Center:	<a href="https://uthsc.policymedical.net/policymed/home/index?ID=de47aa28-16aa-408b-9c96-cb04f232964f&amp;">https://uthsc.policymedical.net/policymed/home/index?ID=de47aa28-16aa-408b-9c96-cb04f232964f&amp;</a>
Institute of Agriculture:	<a href="https://ag.tennessee.edu/Pages/UTIApolicies.aspx">https://ag.tennessee.edu/Pages/UTIApolicies.aspx</a>
Martin:	<a href="http://www.utm.edu/departments/finadmin/procedures.php">http://www.utm.edu/departments/finadmin/procedures.php</a>
Chattanooga:	<a href="http://www.utc.edu/business-financial-affairs/fiscalpolicies.php">http://www.utc.edu/business-financial-affairs/fiscalpolicies.php</a>

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## FORMS:

- [PI Quick Guide](#)
- [Examples of Direct vs F&A Cost](#)
- [Unallowable Costs for Federal and Federal Flow-through](#)
- [UT Justification Statement Examples](#)

## Contacts

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