

ALLOCATION AND CHARGING OF DIRECT AND INDIRECT COSTS AT THE UNIVERSITY OF ROCHESTER

OVERVIEW

Federal regulation mandates that universities establish consistent practices for defining and charging costs either directly or indirectly.

The following material supplements existing University policy and outlines practices that must be consistently applied, in like circumstances, throughout the University of Rochester. This guidance has been established to meet the compliance standards set forth in 2 CFR 200, *Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards [OMB Uniform Guidance]*. It is the responsibility of principal investigators, department heads and administrators to understand and comply with this guidance in order to prevent cost disallowances by the federal government. Consistent treatment of costs is necessary to prevent overcharging the federal government and double counting.

DEFINITIONS

- **Allocable Costs:** Costs of goods or services that are chargeable or assignable to a specific project, function, department, or unit based on the relative benefits received or other equitable relationship of the goods and services to the specific project, function, department or unit.
- **Direct Costs:** Direct costs are costs that can be specifically identified and assigned with *relative ease* and with a *high degree of accuracy* to federally sponsored projects, or operations accounts that charge federally sponsored projects such as service centers or fully-costed shops.
- **Indirect Costs:** Indirect costs (also called Facilities and Administrative costs) are costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted.

Indirect costs are incurred in the following areas:

- Depreciation, maintenance, and utilities for University buildings and equipment;
 - Academic colleges and departments for the administrative effort of clerical, faculty and other professional personnel involved in various missions of the unit;
 - Expenses for offices which serve the entire University, such as the President's Office, Human Resources, Purchasing and Finance;
 - Central operations such as facilities management, telecommunications, sponsored projects administration and libraries
- **Indirect Cost Rate:** A composite rate applied to sponsored projects as a percentage of the sponsored project's direct costs. The federally negotiated indirect cost rates for organized research are developed by the University in accordance with OMB Uniform Guidance and negotiated with the Department of Health and Human Services, the University's federal cognizant audit agency.
 - **Service Centers:** A University of Rochester unit that sells goods and services predominately to colleges or departments within the institution. Service centers must adhere to the University's *Service Center Guidelines* in the development and billing of their rates. Rates for service centers are reviewed and approved annually by the respective Deans' Offices and/or ORACS.
 - **Sponsored Projects:** Projects funded by federal and nonfederal agencies and administered by the Office of Research and Project Administration (ORPA) and Office of Research Accounting and Costing Standards (ORACS). Sponsored projects include grants, contracts and cooperative agreements for

research, clinical trials, training and public service activities. Sponsored projects are assigned to UR Financials GR Financial Activity Objects (FAOs).

CHARGING DIRECT COSTS

The major criterion for direct charging of costs to sponsored agreements is the *identification of a given cost* with the sponsored work rather than the nature of the goods and services involved. In order for expenditures to be considered as direct costs, they must be:

- **Reasonable and necessary** for the performance of the project;
- **Allowable** – Costs that are specifically allowed under the terms and conditions of federally sponsored projects and OMB Uniform Guidance;
- **Allocable and easily identifiable** – The costs must have a direct benefit and be directly attributable to the project or activity being performed.

Costs incurred for multiple projects/activities must be identified as follows:

- If the cost is specific and benefits more than one project, the cost can only be assigned and allocated to the project(s) based on that portion of the expense that represents the direct benefit to the project. This allocation of costs should be made at the time of purchase. If an appropriate basis such as actual usage cannot be identified to allocate the costs with *relative ease* and with a *high degree of accuracy*, such costs must be considered indirect costs. As a rule of thumb, if these costs benefit multiple (e.g., four or five) projects/activities, the ability to accurately allocate the cost to the appropriate projects/activities diminishes and therefore becomes questionable as a direct cost.
- If the benefit is spread over multiple projects to serve common shared activities and it is difficult to identify a direct benefit to each activity or project, the cost must be considered an indirect cost.

Unacceptable Direct Cost Charging Practices

The following examples are unacceptable practices of direct charging:

- Rotating charges among projects without establishing that the charges accurately reflect the relative benefit to each project during that specified period of time;
- Allocating indirect expenses directly to a project;
- Transferring expenses from other FAOs at the end of a project period for the sole purpose of expending a residual balance.

UNALLOWABLE COSTS

In accordance with OMB Uniform Guidance, the federal government will not reimburse universities for certain costs that it considers unallowable. These costs cannot be included in the development of the indirect cost rate, charged as a direct cost to federally sponsored projects, or included in University service center rates. Such costs include alumni activities, development and fund raising, entertainment and lobbying. All costs identified in OMB Uniform Guidance as unallowable must be charged to non-federal sources.

Certain costs such as secretarial and administrative salaries, office supplies, postage, memberships and local telephone costs are normally considered indirect costs and are not allowable as direct charges to federal awards. Regarding certain circumstances whereby secretarial and administrative salaries are allowable as direct costs, refer to University of Rochester Effort Reporting Policy.

SPECIAL CIRCUMSTANCES

As stated in OMB Uniform Guidance, similar costs incurred in like circumstances must be consistently treated as either direct or indirect. However, some costs may be charged as both direct and indirect depending upon the particular purpose or the circumstances of the expense. Size, nature and complexity of federally sponsored projects, are important considerations in determining circumstances where exceptions are justified. The principal investigator, with the assistance of the department administrator and ORPA, must determine if the indirect-type cost is necessary for the conduct of a federally sponsored project. These special circumstances must be documented and justified in the budget narrative at the proposal stage or with associated expense documentation during the term of an existing award.

TYPICAL DIRECT AND INDIRECT COSTS

In order to assist principal investigators and administrators in determining direct and indirect costs at the University of Rochester, the attached matrix has been developed. Any questions pertaining to the correct charging of costs should be referred to ORPA - [Gunta Lidars](#) or ORACS - [Jeff Sullivan](#).

Attachment: Typical Direct and Indirect Costs

Updated: December 2014

Typical Direct and Indirect Costs

Typical Direct and Indirect Costs	Indirect
<p>Direct</p> <p>Salaries & Wages/Fringe Benefits Faculty, technicians, scientists, research assistants, postdoctoral associates, or other programmatic personnel who are necessary to accomplish the goals of the project.</p> <p>Long Distance Telephone Charges</p> <p>Scientific & Technical Equipment</p> <p>Maintenance agreements related to scientific and technical equipment</p> <p>Materials (including noncapitalized equipment)</p> <p>Participant Support Costs</p> <p>Lab Supplies (items solely consumed by the project)</p> <p>Services Obtained:</p> <ul style="list-style-type: none"> • Animal Care/Vivarium • Outside vendors <p>Consultant/Professional services</p> <p>Subcontracts</p> <p>Human Subjects Fees</p> <p>Travel (domestic)</p> <p>NOTE: Costs normally charged indirect are charged direct when:</p> <ul style="list-style-type: none"> • There is a functional difference in the work performed by individuals in the same job classification • Size, nature and complexity goes well beyond normal departmental support <u>Examples:</u> center awards, epidemiology studies, clinical trials, multidisciplinary awards • The cost is incurred for the sole benefit of a grant, e.g., mailing a progress report to a sponsor 	<p>Salaries & Wages/Fringe Benefits Clerical and administrative positions such as fiscal officers, accountants, secretaries, directors, vice presidents, president, office personnel, executive assistants, and administrators.</p> <p>Telephone (data lines, equipment, recurring, installation and maintenance)</p> <p>Equipment (office and general purpose)</p> <p>Janitorial Services Sanitation Services (including hazardous waste) Repair & Maintenance (buildings, grounds, equipment, remodeling, etc.)</p> <p>Subscriptions, Library Books, Periodicals, etc. Postage</p> <p>Memberships</p> <p>Office Supplies Photocopy (for general office use)</p> <p>Utilities</p> <p>NOTE: Costs listed in “Direct” become indirect when they are for general institutional purposes or support multiple project/activities, and they cannot be identified with relative ease and with a high degree of accuracy with those projects/activities</p>