



<b>SUBJECT:</b> Direct Cost Policy	<b>Effective Date:</b> 11-01-2008	<b>Policy Number:</b>	
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	<b>Responsible Authorities:</b> Director, Research Accounting		

I. Background

Florida Atlantic University is required by the Office of Management and Budget (OMB) Circular A-21 (Relocated to 2 CFR, Part 220), OMB Circular A-110 (Relocated to 2 CFR) and Cost Accounting Standards (CAS) 502 and 505 to have established principles for determining direct costs that are applicable to sponsored projects and to consistently and uniformly administer sponsored projects, respectively.

II. Purpose

The purpose of this policy is to establish uniform procedures for both Federal and Non-Federal sponsored projects in order to provide guidance and to ensure compliance of direct costs with OMB Circular A-21 (Relocated to 2 CFR, Part 220), OMB Circular A-110 (Relocated to 2 CFR, Part 215), CAS 502 and 505, federal and state regulations, as well as, sponsor terms and conditions.

III. General Statement

Research Accounting is available to answer questions and provide assistance regarding the requirements of the Direct Cost Policy.

IV. Policy

It is the policy of Florida Atlantic University that direct costs on all federal and non-federal sponsored programs for all cost categories, including payroll costs, be accurately charged to the appropriate FAU project account to maintain the financial

integrity for sponsor programs. In order to maintain the financial integrity direct costs must adhere to the following criteria:

1. Direct costs must meet the allowability, allocability and reasonableness guidelines described in OMB Circular A-21 and consistently in OMB A-110, along with any sponsored agreement specific requirements;

A. Definitions

Allowability: The direct cost must be allowable under the terms and conditions of the award, including the authorized budget and applicable regulations.

Allocability: The direct cost of goods or services must benefit the award charged. Goods or services shared by more than one project are allocable in proportions that can be approximated through actual use. Example: If you are charging Project A for 50% of an item purchased, Project A must receive half the benefit or use of that item.

Reasonableness: A direct cost may be considered reasonable if the nature of the goods or service acquired and the amount paid, reflect the action that a prudent person would have taken at the time the decision to incur the cost was made. Costs should be reasonable in price, as well as in quantity, in order to accomplish the project's objectives.

Consistency: The application of direct costs must be given consistent treatment within established University policies and procedures including Generally Accepted Accounting Principles and Cost Accounting Standards as issued by the Federal Cost Accounting Standards Board.

Timely: Direct costs that benefit the project should be incurred throughout the life of the award. Direct costs submitted within the last 30 days of the project period may be considered to be "arbitrary" if direct costs are: (1) not necessary for the completion of the project, (2) used to expend the remaining balance of the project funds or (3) used to cover costs from another project. Equipment submitted within the last 90 days of the project period requires written justification and prior authorization from the sponsor; refer the Equipment Policy for Sponsored Programs (pending website link).

B. Unacceptable direct cost charging practices; this list is not inclusive:

1. Not necessary for the performance of the agreement
2. Does not benefit the project
3. Advances; no prepayments (i.e., no travel advances) on federal and federal-flow-through contracts and grants

4. Based upon a budgeted amount; the amount must be based upon actual usage (i.e., departmental service charges)
5. Disguised as an allowable cost that is unallowable (i.e., misclassify a cost as something that it isn't)
6. Rotated costs among projects by month/week/semester
7. Overspent costs from other projects to "use up the funds" (i.e., charging items that benefit another project or "dumping costs").
8. Charged arbitrarily to a project with the largest remaining balance or to a project with the earliest expiration date.
9. Intended to use up unobligated balances
10. An assigned "departmental tax" to projects for clerical/administrative costs

C. If direct costs are not allowable, allocable, and reasonable or adequately documented they may **NOT** be charged to a sponsored research project.

2. Direct costs must adhere to Federal Statutes, State of Florida Regulations and University Policy;

A. Some direct costs may be allowable as a charge to a sponsored project but are "not allowable" under Federal Statutes, State of Florida Regulations and University Policy. All direct costs purchased under a sponsored program must adhere to Federal Statutes, State of Florida Regulations and University Policy. For further information regarding State of Florida Regulations and University Policy refer to the Financial Affairs website at <http://www.fau.edu/financial/index.php>.

B. Direct costs that have a specified policy:

1. Equipment – All direct costs for equipment must comply with the policies stated in the "Equipment Policy for Sponsored Programs" (Pending website link).
2. Subcontracts – All direct costs for subcontracts must comply with the policies stated in the "Subcontract Policy" <http://www.fau.edu/research/ocg/procedures/subcontracts.php>.

C. Direct Costs that have specified processing requirements:

1. Animal Subjects – All direct costs for animal subjects must be processed through the Office of Veterinary Services (<http://www.fau.edu/research/ovs/index.php>) to ensure full compliance with Federal, state and local regulations.
2. Salary – All direct costs for salary and OPS must comply with university

employment policies within the Department of Human Resources  
<http://www.fau.edu/hr/>.

3. Student Employment – All direct costs for student employment, including graduate students, must comply with university policies of the Student Employment Office  
[http://www.fau.edu/hr/Student\\_Employment/](http://www.fau.edu/hr/Student_Employment/) .
4. Travel – All direct costs for travel must be submitted electronically using the Web On-Line Forms (WOLF) System. The Office of Sponsored Research must be included as an authorized approver on all travel requests for FAU Project Accounts for contracts and grants. <http://wolf.fau.edu:8080/wolf/index.html>

***Special Note: Travel advances for all federal and federal-flow-through contracts and grants are “unallowable.”***

5. Tuition - All direct costs for tuition must be processed through the Office of Student Financial Services.  
<http://www.fau.edu/banner/tuition-exemp.php>

In cases when a grant starts after the semester start date or the grant ends before the semester end date, the allowable cost for tuition must be prorated on a weekly basis (rounded to the nearest number of weeks).

For example, if an active grant that expires March 31, 2008 and has sponsored approved budget for tuition and wants to charge Spring Semester tuition costs, only the prorated (weekly) amount of tuition is allowable to be charged to the grant up to the March 31, 2008 grant end date.

In order to determine the prorated amount to be charged to the grant, the following steps are required. Please Note: The dates and amounts provided in this example are for demonstration purposes only. The granting periods, official university tuition costs and semester dates are subject to change, so the allowable tuition cost must be calculated on a grant-by-grant basis\*.

- ▶ Number of credit hours (6 graduate credit hours)\*
- ▶ Cost per graduate credit hour for Florida residents (\$255.97)\*; official university cost of tuition  
[http://www.fau.edu/finaid/apply\\_aid/coe.php](http://www.fau.edu/finaid/apply_aid/coe.php)

- ▶ Number of weeks for the Spring Semester; official university academic calendar (<http://www.fau.edu/provost/facultyinfo.php>)

Number of weeks per semester - Standard	
Fall and Spring Semesters	19.5 weeks
Summer Session C	13 weeks
Summer Sessions A and B	6.5 weeks

- ▶ **Prorated cost of tuition per week:** 6 (credit hours) x \$255.97 (cost per credit hour) = \$1,535.82 / 19.5 (Spring Semester weeks) = **\$78.76\***

- ▶ Number of weeks allowable for the semester, based upon a Spring Semester start date of December 26, 2007 and grant end date of March 31, 2008, would be 13 weeks (rounded to the nearest week); official university academic calendar is available at (<http://www.fau.edu/provost/facultyinfo.php>)

- ▶ **Allowable prorated cost of tuition for grant ending March 31, 2008:** 13 weeks x \$78.76 per week = **\$1,023.88\***

Exception: Projects that are classified as “educational-training grants” and that have documented sponsor approval are exempt from pro-rating FAU tuition. Educational-training grants are projects that provide funding for training or other educational services such as (1) summer institutes, (2) training programs for selected participants, (3) the introduction of new or expanded courses or (4) instructional undertakings that are separately budgeted and accounted for by the sponsoring institution.

3. Direct costs must be charged to the appropriate sponsored project;
  - A. Direct costs need to be charged to the appropriate sponsored project (FAU Project Account) when first incurred. In most cases, direct costs are attributable to a single project, but for instances when costs may be attributed to more than one project, those costs need to be allocated. OMB Circular A-21 provides a rule method for allocating allowable direct costs on two or more grants <http://www.whitehouse.gov/OMB/circulars/a021/a021.html>:
    1. Requirements to allocate direct costs

In order to comply with the standards set forth in OMB Circular A-21, the following steps are required to allocate direct costs: (1) costs must be allocated on a consistent basis, (2) allocating costs between projects must be based on the benefit received, (3) the allocation method must be clearly documented and (4) allocations must be updated if there is a change in benefit to the project.

2. Method – Acceptable

The proportional benefit rule is an acceptable method to allocate direct costs. Direct costs are allocated according to the proportion of benefit provided to each project without undue effort or cost. For example, the cost of lab supplies might be allocated based upon the quantity used on each project.

3. Method – Unacceptable

All other methods of allocating costs such as: (1) assigning charges to a project with the largest remaining balance, (2) assigning charges to a project with the earliest end date or (3) charging the budgeted amount to the project, instead of the amount based on actual usage are all **unacceptable** methods, because the cost cannot be identified to a project with a high degree of accuracy.

4. Direct costs must be allowable to the sponsored project; and properly justified with sufficient support documentation on the appropriate university form;
  - A. In accordance with OMB Circular A-21, OMB Circular A-110 and CAS 505 the federal government will not reimburse universities for certain costs that it considers unallowable. These unallowable costs are specifically identified in OMB Circular A-21, Section J. as unallowable costs on Federal grants and contracts. The following list below are examples of unallowable costs. This list is “**not inclusive**.”

Sponsored programs may have additional cost limitations included in the terms and conditions of the award. In these instances, the provisions of the award document must be adhered to in addition to the OMB Circulars. If a Federal sponsor does not allow a certain expense on a project or limits the amount of the cost, the unallowable cost cannot be charged to another Federal project. For example, National Institutes of Health (NIH) has a Salary CAP as stated in the NIHGPS (Grants Policy Statement) available at [http://grants.nih.gov/grants/policy/nihgps\\_2003/NIHGPS\\_Part5.htm#Toc54600115](http://grants.nih.gov/grants/policy/nihgps_2003/NIHGPS_Part5.htm#Toc54600115).

Unallowable Costs	
Advertising	Fine/original art
Alcoholic beverages	Fines and penalties

Alumni or fund-raising activities	Flowers
Antiques	Gifts, prizes and awards
Audit costs and related services	Goods and services for personal use (clothing, briefcases, etc.)
Bad debt write-offs	Holiday decorations, parties and greeting cards
Commencement expenses	Lobbying
Conference Events (golf outings, tours, etc.)	Memberships in non-job related professional societies (civic, social, community organizations and country clubs)
Contributions (political and charitable)	Petty cash funds
Cost overruns	Selling and marketing products or services of the University
Decorative objects for offices (plants, clocks, bookends, picture frames, etc.)	Spouse related costs
Entertainment (meals, food or refreshments)	Travel related: (1) air travel club memberships, (2) first class/business class airfare and (3) hotel amenities (movies, room service, etc.)
Faculty and exempt staff salary in excess of base rates paid by the institution	University parking passes or tickets

Note: Individual agencies and programs have authority to approve certain costs. For example, it may be appropriate to budget “alcoholic beverages” as a direct cost of a sponsored project when the Scope of Work is to study the effects of alcohol on reflex movement. To budget or charge such a cost, the principal investigator must fully disclose such items in the budget narrative and detail the use of the items in the Scope of Work.

- B. The direct cost must be justified by providing a detailed explanation in order for a reviewer to understand the purpose of the cost and conclude that it is appropriate for the project.
- C. The direct cost must be accompanied with sufficient support documentation which includes: invoices, statements and receipts.
- D. The direct cost must be submitted on the appropriate university form:
  1. Labor costs – Refer to the university Human Resources Office <http://www.fau.edu/hr/> or the Student Employment Office

[http://www.fau.edu/hr/Student\\_Employment/](http://www.fau.edu/hr/Student_Employment/) for official university forms.

2. All other costs – Refer to the university controller’s office <http://www.fau.edu/controller/> and purchasing department <http://www.fau.edu/purchasing/> for official university forms.

E. Direct costs charged to awards should be net of any applicable credits. OMB Circular A-21, Section C, 5 states that “applicable credits” refers to those receipts or negative expenditures that operate to offset or reduce direct or F&A cost items. Examples of such transactions are: purchase discounts, rebates, or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges. This term also includes “educational discounts” on products or services provided specifically to educational institutions. Therefore, if a credit is received on a purchase the credit cannot be funneled to or accumulated in a different account; the credit must be applied directly to the account in which it was charged.

5. Direct costs must be treated consistently as direct or indirect costs;
  - A. OMB Circular A-21 and Cost Accounting Standards CAS 502 require the consistent treatment of costs. Costs incurred for the same purpose, in like circumstances, must be treated uniformly as either direct or indirect costs. In-other-words, the same types of costs must be treated consistently as either direct or indirect costs. For a listing of typical items classified as direct and indirect, refer the Typical Direct and Indirect Cost Grid (pending website link).
  - B. The following costs are “normally” treated as indirect costs and will not be allowed to be charged directly to Federal sponsored projects:
    1. Salaries and related fringe benefits of administrative, secretarial and clerical staff;
    2. Office supplies;
    3. Postage;
    4. Local telephone costs;
    5. Memberships and subscriptions;
    6. General purpose equipment; and
    7. General purpose software

Exception - Non-Federal Sponsored Project

When non-federal sponsored agreements specifically authorize costs that are normally treated as indirect costs, such as salaries for clerical

or administrative, office supplies or phone, these costs may be directly charged to non-federal sponsored projects.

Exception – Federal Sponsored Project

Certain circumstances may exist that would allow the expenses listed above to be charged as direct costs to a Federal sponsored project.

- a. The circumstance for which Administrative and Clerical salaries may be an allowable direct cost to a Federal sponsored project would be that the project is considered a “Major Project.” A “Major Project” as defined by OMB Circular A-21 Section F, 6, b(2), is a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such service provided by an academic department. A “Major Project” may exist if costs meet the following criteria **inclusively**:

1. One of the following must exist in the proposal’s Scope of Work:

- A large or complex program that entails assembling and managing teams of investigators from a number of institutions (Examples: Clinical Research Centers, Primate Centers, Program Projects, Environmental Research Centers and Engineering Research Centers).
- A project that involves extensive data accumulation, analysis, and surveying, tabulation, cataloging, searching literature, and reporting (Examples: Epidemiological Studies, Clinical Trials and Retrospective Clinical Records Studies).
- A project that requires making travel and meeting arrangements for large numbers of participants (Examples: conferences and seminars).
- A project whose primary focus is the preparation and production of manuals and large reports, books and monographs; ***excludes*** routine progress and technical reports.
- A project that is geographically inaccessible to normal departmental administrative services (Examples: research vessels, radio astronomy)

projects and other research field sites that are remote from campus).

□ A project that requires project-specific database management, individualized graphics or manuscript preparation (Examples: human or animal protocols and multiple project-related investigator coordination and communications).

2. The cost can be specifically identified with the objectives of the project (Scope of Work);

3. The cost can be specifically identified with relative ease and a high degree of accuracy;

4. The cost is used for a purpose other than the normal university operations and requires support, which is greater than the routine costs that an academic department typically provides;

5. The expense item is included in the budget proposal and justification. If the need for the cost is realized during the life of the project, the Principal Investigator may request approval from the Office of Sponsored Research for the expense item to be charged to the project as a direct cost using the CAS 502 Exception Form (<http://www.fau.edu/research/ocg/ocgforms/>). The Office of Sponsored Research will determine if it is necessary to obtain prior written approval from the Federal sponsor; and

6. An approved CAS 502 Exception Form (<http://www.fau.edu/research/ocg/ocgforms/>) must be on file in the Office of Contracts & Grants. In order for the cost to be considered for approval, the Principal Investigator or their designee must submit this form with the appropriate signatures along with a copy of the budget proposal and detailed information pertaining to the amount of salary and benefits, employee name, title, percent of effort, period of time employee(s) will work on project and duties to be performed.

b. The circumstance for which non-labor administrative costs may be an allowable direct cost to a Federal sponsored project would be that the project has a “Special Circumstance.” A “Special Circumstance” may exist if costs meet the following criteria **inclusively**:

1. The cost can be specifically identified with the objectives of the project (Scope of Work);
  2. The cost can be specifically identified with relative ease and a high degree of accuracy;
  3. The cost is used for a purpose other than the normal university operations and requires support, which is greater than the routine costs that an academic department typically provides;
  4. The expense item is included in the budget proposal and justification. If the need for the cost is realized during the life of the project, the Principal Investigator may request approval from the Office of Sponsored Research for the expense item to be charged to the project as a direct cost using the CAS 502 Exception Form (<http://www.fau.edu/research/ocg/ocgforms/>). The Office of Sponsored Research will determine if it is necessary to obtain prior written approval from the Federal sponsor; and
  5. An approved CAS 502 Exception Form (<http://www.fau.edu/research/ocg/ocgforms/>) must be on file in the Office of Contracts & Grants. In order for the cost to be considered for approval, the Principal Investigator or their designee must submit this form with the appropriate signatures along with a copy of the budget proposal and detailed information pertaining to the amount and specific item.
6. Direct costs must be correctly categorized by utilizing the university's account code system;
- A. Direct costs must be classified by account code utilizing the university's account code system in order to invoice and report the financial activity for contracts and grants. Expenditure account codes are 6-digit numeric codes used by the university to categorize expense items. It is critical to assign the correct account code to each direct expense in order to properly invoice and report direct costs to the sponsor. An account code listing is available at <http://www.fau.edu/research/ocg/files/acctcodes.xls>.
  - B. It is unallowable to disguise an unallowable cost as allowable, by misclassifying the direct cost using the university's account code system.

7. Direct costs must have adequate budget availability;
  - A. Direct costs must have adequate budget availability in the designated budget pool. Determining the budget availability for an award can be accessed by using the Banner financial System. A budget pool listing for codes is available at <http://www.fau.edu/research/ocg/fles/acctcodes.xls>.
  - B. The direct costs must be listed in the sponsor approved budget proposal. If the sponsor did not require a budget to be submitted during the proposal stage, a budget will be required to approve charges to the FAU project account.

## V. Definitions

Allocable	A cost is allocable to a project if goods or services involved are chargeable or assignable in accordance with the relative benefits received by the projects. In order to be allocable a cost must be treated consistently in like circumstances. For further information see OMB Circular A-21 (Relocated to 2 CFR, Part 220). <a href="http://www.whitehouse.gov/OMB/circulars/a021/a021.html">http://www.whitehouse.gov/OMB/circulars/a021/a021.html</a>
Allowable	A cost is allowable to a project if: (1) the costs are reasonable; (2) the costs are allocable to the specific project; (3) the costs are treated consistently in like circumstances; and (4) the costs conform to any limitations of the cost principles or the sponsored agreement. For further information see OMB Circular A-21 (Relocated to 2 CFR, Part 220). <a href="http://www.whitehouse.gov/OMB/circulars/a021/a021.html">http://www.whitehouse.gov/OMB/circulars/a021/a021.html</a>
Consistent Treatment of Costs	A principle that each type of cost is allocated only once and only one basis or and must be treated uniformly as either direct costs or as indirect costs to Federal awards.
Cost Accounting Standards (CAS)	Cost Accounting Standards (CAS) are cost accounting practices listed in OMB Circular A-21 that are designed to achieve uniformity and consistency in cost accounting practices.

Direct Costs	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 such activities relatively easily with a high degree of accuracy. For further information see OMB Circular A-21 (Relocated to 2 CFR, Part 220), Section D.1. <a href="http://www.whitehouse.gov/OMB/circulars/a021/a021.html">http://www.whitehouse.gov/OMB/circulars/a021/a021.html</a>
Documentation	Providing a detailed explanation and support documents as evidence to substantiate allocability, allowability and reasonableness for a specific transaction.
Facilities and Administrative (F&A) Costs	Costs that are incurred for common or joint objectives and therefore cannot be readily and specifically identified with a particular sponsored project. F&A costs, also known as indirect costs or overhead, are those costs associated with maintaining the infrastructure of the University.
FAU Project Account	An account established to record the revenues, expenditures and encumbrances of a project or program funded by an external sponsor for the life of the project or program.
Indirect Costs	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. For further information see OMB Circular A-21 (Relocated to 2 CFR, Part 220), Section E.1. and F.1. Also known as overhead or F&A. <a href="http://www.whitehouse.gov/OMB/circulars/a021/a021.html">http://www.whitehouse.gov/OMB/circulars/a021/a021.html</a>
Major Project	As defined by OMB Circular A-21, Section F 6 b (2), a project or activity that requires an extensive amount of administrative and clerical support, which is significantly greater than the routine level of such services provided by academic departments. Major projects are those that are administratively intensive and are not necessarily defined by the amount of funding.
Non-salary Costs	For purposes of this policy, non-salary costs are supplies, professional fees, travel, equipment and other non-payroll expenditures.

OMB Circular A-110	Standards for obtaining consistency and uniformity among Federal agencies in the administration of grants to and agreements with institutions of higher education, hospitals, and other non-profit organizations. <a href="http://www.whitehouse.gov/omb/circulars/a110/a110.html">http://www.whitehouse.gov/omb/circulars/a110/a110.html</a>
OMB Circular A-21	Established principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. <a href="http://www.whitehouse.gov/OMB/circulars/a021/a021.html">http://www.whitehouse.gov/OMB/circulars/a021/a021.html</a>
Reasonable	A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. [OMB Circular A-21(Relocated to 2 CFR, Part 220)]. <a href="http://www.whitehouse.gov/OMB/circulars/a021/a021.html">http://www.whitehouse.gov/OMB/circulars/a021/a021.html</a>
Review	A process whereby transactions are analyzed to see if they meet the standards of allowability, allocability, reasonableness and are in accordance with Federal, State, Agency and University guidelines.
Salary Costs	For purposes of this policy, salary costs are payroll expenses for all classes of employees including students and OPS (salary and benefits).

## VI. Accountability

Principal Investigators and their designees are responsible for reviewing and approving direct costs to ensure that the expense is included in the approved budget or in an approved re-budget request; the funds are available in the FAU Project Account; the transaction is allowable, allocable and reasonable for the project and is properly documented. The Principal Investigator or their designee is responsible for initiating the request and by signing the request, is assuring that the cost is necessary to carry out the scope of work.

The Principal Investigator, Dean, Director or Chair of the department who delegates responsibilities and decision making authority for direct costs must ensure that the employees responsible for sponsored projects are qualified and are properly fulfilling their responsibilities. Both Principal Investigators and their designees are responsible and accountable for complying with the criteria in the Direct Cost Policy.

Sponsored Programs is responsible for reviewing and approving all direct costs for salary and other personnel services (OPS) as well as all travel and Research Accounting is responsible for reviewing and approving all direct costs for all non-salary costs (except travel) based upon the Direct Cost Policy criteria.

VII. Annual Review of Procedures Manual

The Direct Cost Policy will be reviewed annually.