Direct Charge Guidance

I. PURPOSE

In accepting federally sponsored projects (grants, contracts, and other types of agreements) Georgia State University (GSU) agrees to abide by federal regulations regarding the use of those funds. Office of Management and Budget 2 CFR PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UG) sets forth general criteria for determining the allowability of direct costs on federally sponsored projects. Many federal agencies publish additional cost guidelines specific to those agencies, and familiarity with such regulations is also necessary.

Although generally not as stringent as federal requirements, non-governmental agencies may also have cost guidelines with which GSU faculty (e.g., principal investigators), departmental business officers, and/or grant administrators should be familiar.

This Guide summarizes pertinent overall federal regulations and GSU practices used to determine whether a particular cost item would be considered an allowable direct cost for budgeting and/or charging on a federally sponsored project. Federal auditors may use the same guidelines when conducting audits of sponsored projects awarded to GSU.

Charges to federally funded projects that are not in compliance with the UG are subject to being refunded to the federal government. Audit findings per the UG represent both a financial and a reputation exposure often associated with the negative publicity about disallowed costs for the institution.

This guidance represents GSU’s best judgment and interpretation of the appropriate application of the UG requirements of costs charged to research grants at this time and under present and reasonably foreseeable circumstances. This guidance is not a comprehensive and legal restatement of all the UG requirements. Within the UG framework, this policy is intended to provide support for GSU’s research activities.

A. Responsibility

Each GSU administrative unit (defined as part of a school, college, department, division, center, institution section or large program) is responsible for complying with and enforcing the following policies and procedures. Any penalties, disallowance or losses of funding caused by non-compliance with this guidance will be the responsibility of the administrative unit in violation.
1. GSU’s Administration Responsibilities

GSU administration is responsible for developing a set of operating principles and guidelines that comply with the UG and clearly delineate those research-related expenses identified as direct costs versus facilities and administrative (F&A) costs. GSU administration takes responsibility for providing thorough fiscal guidance, communicating changes to the faculty and staff, and overseeing the implementation of guidance. The office of Sponsored Proposals and Awards is designated to carry out the guidance oversight responsibilities.

2. Administrative Unit Responsibilities

Each school or college has ultimate responsibility for implementing and monitoring compliance with this guidance. Each school or college is responsible for clearly delineating the responsibilities between the school or college and its administrative units. The administrative units at GSU are the primary support for providing the principal investigator (PI) with the information necessary to fulfill his/her fiduciary and sponsored project management responsibilities.

3. PI Responsibilities

Responsibility for scientific and budgetary decision-making in research contracts and grants, following GSU guidance, is assigned to and must be accepted by the individual designated as the Principal Investigator (PI) for the contract or grant. These decisions must be recorded in a manner that assures their subsequent accurate implementation. The PI is responsible for giving the administrative unit instructions on specific allocation of funds based on a “facts and circumstances” test that considers the needs of the project. While the administrative unit administrators provide PIs essential management support in this area, it is the PIs who are responsible for making the crucial financial decisions related to costs.

B. Applicability

To ensure the consistent treatment of costs, GSU has incorporated the UG’s principles into its accounting practices and adopted these principles as guidance for costs on federal awards, whether awarded directly as a prime recipient, or indirectly through a sub-agreement from another institution.
II. **DEFINITIONS**

A. **Capital Equipment** is an article of non-expendable tangible personal property having a useful life of more than one year and an acquisition cost of $5,000 or more. This includes donated equipment, and equipment being constructed where component parts may be less than $5,000 each, but the total cost will be $5,000 or more.

B. **Direct Costs** are costs that can be identified specifically with a particular GSU project, or that can be assigned to such activities relatively easily with a high degree of accuracy.

C. **F&A Costs** are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically.
   1. Examples of facilities costs include building depreciation, maintenance and repairs, health and safety, grounds maintenance, and security.
   2. Examples of administrative costs include administrative and clerical salaries, membership dues, general office supplies and postage.

D. **Sponsored Projects** are research, instructional, or public service activities that are related to the mission of GSU and sponsored by external agencies or entities. F&A is not a factor in determining whether funding is a sponsored project. Application/award issues that require administration include any one of the following:
   1. The award is a grant or contract from a governmental entity.
   2. Sponsor support is directed to satisfy specific, programmatic objectives that are to be accomplished within a specific time and budget framework.
   3. The sponsor is entitled to receive some deliverable, such as a detailed technical report of research results or a report of expenditures.
   4. There is a provision for audits by or on behalf of the sponsor.
   5. The funding is for a project with compliance issues including, but not limited to human subjects, animal use, biohazards, and biosafety.
   6. The grantor requests publication restrictions, patent, or licensing rights.
III. **GUIDANCE**

A. **Requirements.** Adherence to the federal requirements outlined in the UG is critical to the acceptance and allowance of GSU charges to federally sponsored projects. The basic requirements for all sponsored projects are:

1. **Allowable.** Except as otherwise authorized by statute, costs must meet the following criteria to be allowable under Federal awards:
   
a. Be necessary and reasonable for the performance of the Federal award and be allocable to the award
b. Conform to any limitations or exclusions set forth in the UG or in the Federal award
c. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of GSU
d. Be accorded consistent treatment.
e. Be determined in accordance with generally accepted accounting principles (GAAP)
f. Not included as a cost or used to meet cost sharing or matching requirements of any other federal project
g. Be adequately documented as indicated in the UG

2. **Reasonableness.** Costs must be reasonable and necessary for the performance of the sponsored project and incurred within the project period. Failure to adequately document a cost could result in disallowance of a legitimate charge.

3. **Allocability.** Costs must be allocable to the project. For costs benefiting more than one sponsored project, the relative benefit must be approximated using a reasonable basis reflecting use or level of service. Costs should be allocated to the projects in proportion to the benefits received. The basis for allocation should be documented and retained for audit purposes.

4. **Consistency.** Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution.

**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 sponsored agreement are the compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs to the extent they are consistently treated, in like circumstances, by the institution as direct rather than indirect costs; the costs of materials consumed or expended in the performance of the work; and other items of expense incurred for the sponsored agreement. The cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations
may be included as direct costs of sponsored agreements, provided such items are consistently treated, in like circumstances, by the institution as direct rather than indirect costs and are charged under a recognized method of computing actual costs, and conform to generally accepted cost accounting practices consistently followed by the institution.

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 the following conditions are met:

a. Administrative or clerical services are integral to a project or activity.

b. Individuals involved can be specifically identified with the project or activity.

c. Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and

d. The costs are not also recovered as indirect costs.

[Office of Management and Budget Uniform Guidance 2 CFR 200.413]

B. Direct Charging Practices that Are Not Allowable

The UG requires that direct costs "be identified specifically with a particular sponsored project and assigned relatively easily with a high degree of accuracy." Special care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs. For example, salaries of technical staff, laboratory, or research supplies (e.g., chemicals), animals, animal care costs, human subject payments, equipment, computer costs, travel costs, and specialized shop costs shall be treated as direct costs wherever identifiable to a particular project. Direct charging of these costs may be accomplished through specific identification of individual costs benefiting sponsored projects or through Service Centers as appropriate under the circumstances.

Examples of direct charging practices not acceptable to sponsored projects:

1. Rotation of charges among sponsored projects by month without establishing that the rotation schedule credibly reflects the relative benefit to each grant.

2. Assigning charges to the sponsored project with the largest remaining balance or other basis outside of the benefit to the project.

3. Charging the budget amount in contrast to charging an amount based on actual usage.

4. Assigning charges to sponsored projects in advance of the time the cost is incurred.

5. Assigning charges to sponsored projects that were incurred outside of the project period, including a pre-award period if applicable.

6. Identifying a cost as something other than what it is.

7. Charging expenses exclusively to sponsored projects when the expense has supported non-sponsored project activities.

8. Assigning charges that are part of the normal administrative support for contracts and grants (e.g., proposal preparation, accounting, payroll).
9. Charging ending sponsored projects to expend funds without regard to the appropriateness of the costs.

10. Shifting costs to other sponsored projects due to cost overruns, avoidance of restrictions imposed by law, or for convenience. Convenience would include charging a direct cost to a project on a temporary basis, pending the set-up of a new project account number.

11. Charging administrative costs directly to sponsored projects because the administrative unit requires the PIs to fund these costs (i.e., postage, office supplies).

Note: Special circumstances may be included in the terms of award or in overreaching principles.

IV. ATTACHMENTS

A. Other Types of Direct Charging

This guidance covers all direct charging to sponsored projects. The other types of costs that are direct charges to sponsored projects are covered in the following Exhibits:

1. Exhibit A, Examples

2. Exhibit B, Flow Chart Illustration
Exhibit A – Examples

Examples of Costs that are NOT Normally Considered as Direct Costs at GSU

At GSU, the following costs are NOT normally budgeted and charged as direct costs of sponsored projects:

Salaries of individuals engaged in routine departmental or administrative work that benefits all activities of the department (instruction, research, training, public service, etc.), i.e., there is no direct relationship to a specific sponsored project’s scope of work.

Supplies and materials for routine departmental or administrative activities of the department that benefit all activities of the department (instruction, research, training, public service, etc.), i.e., there is no direct relationship to a specific sponsored project’s scope of work.

Other costs such as travel, repairs, fees, and services, copying and postage that are for routine departmental or administrative use, and do not have a direct relationship to a specific sponsored project’s scope of work.

General office items with multi-functional use such as computers, fax machines, answering machines, staplers, hole punches, filing cabinets, chairs, desks, calculators, waste baskets, etc.), that do not have a direct relationship to a specific sponsored project’s scope of work.

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. [Office of Management and Budget Uniform Guidance 2 CFR 200.413]

Clerical Salaries
Clerical salaries CAN be budgeted and charged as direct costs under certain circumstances. Simply knowing the "nature of the good or service", e.g., clerical salary, is not sufficient to determine whether the cost is an appropriate direct charge to a sponsored project. To make the determination, one must know the cost's relationship to the sponsored work. For example:

Clerical salaries that are paid to individuals entering data from a survey that is part of the sponsored project’s scope of work may be appropriately charged as direct costs.

Clerical salaries that are paid to individuals for routine administrative work such as processing purchase requisitions, reviewing monthly ledgers, processing new proposals, etc., and that benefit all aspects of a department, including research, are normally NOT appropriate direct cost charges.

Other Examples

Following are other examples of costs and the circumstances under which they may be incurred. For each cost/circumstance, it is indicated whether the cost would be budgeted and charged as direct cost under GSU direct cost guidelines.
### Salaries expense incurred under the following circumstances:

| Description                                                                 | Direct Cost?
|-----------------------------------------------------------------------------|------------
| 1. Processing purchase orders on a research grant (such as an R01)          | X          |
| 2. Processing purchase orders on a center/program project grant            | X          |
| (admin. effort documented in proposal as part of scope of work)            |            |
| 3. Proposal Development                                                    | X          |
| (Writing, editing, copying, and mailing proposals)                          |            |
| 4. Principal Investigator effort to write annual project report (may        | X          |
| include next budget year’s proposal)                                       |            |
| 5. Data entry (data collected under project scope of work)                 | X          |
| 6. Data entry – Financial transactions for a research grant are entered    | X          |
| into financial system (Note: may be considered a direct cost if part of   |            |
| the administrative budget on a program/project or center grant AND         |            |
| approved by the sponsor)                                                   |            |

### Supplies or services expense incurred under the following circumstances...

| Description                                                                 | Direct Cost?
|-----------------------------------------------------------------------------|------------
| 1. Copying costs for copying purchase orders, monthly ledgers               | X          |
| 2. Copying costs for annual progress reports                               | X          |
| 3. Mailing costs for shipments of research materials and deliverables if   | X          |
| necessary to perform the project’s scope of work                            |            |
| 4. Copying costs for copying forms to mail out to survey recipients         | X          |
| (survey is part of project scope of work)                                  |            |
| 5. Manila folders for general office use                                   | X          |
| 6. Manila folders for filing survey responses, lab results                  | X          |

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. [Office of Management and Budget Uniform Guidance 2 CFR 200.413]

Justification required in proposals that budget certain costs as direct costs:
For the following cost items (and for any others that a layperson may consider routine and administrative in nature), specific written justification as to the relationship between the cost and the proposed project's scope of work should be completed and submitted to the appropriate pre-award grants or contracts office as a part of the proposal to the sponsoring agency. The documentation should explain the direct benefit relationship between these cost items and the proposed scope of work.

- Clerical and administrative salaries
- Office Supplies
- Postage
- Memberships
- Subscriptions
- Items generally thought of as having multi-functional use (staplers, hole punches, filing cabinets, chairs, desks, computers, printers, fax machines, calculators, waste baskets, etc.)
Exhibit B

Is the cost...

Reasonable?
  YES
  Allocable?
    YES
    Consistent?
      YES
      Allowable?
        NO
        Not an Appropriate Charge to Sponsored Project
        YES
        Sponsored Funds Available?
          NO
          Direct Charge to Cost Sharing
          YES
          Direct Charge to Sponsored Project