

Direct and Indirect Cost Charging Policy

Policy Number: 600-015
Effective Date: April 3, 2007
Last Updated: April 3, 2009
Issuing Authority: Vice President for Research and Compliance
Responsible Office: Office of the Vice President for Research and Compliance and Office of the Controller

Purpose:

To define how expenses are budgeted and charged to sponsored projects at Howard University and all related entities, business units, subsidiaries and affiliated organizations including, but not limited to, Howard University Hospital (hereinafter referred to collectively as “Howard University”). This policy provides a foundation for good stewardship of funds given to Howard University and for compliance standards outlined by external guidelines, including the federal guidelines in *OMB Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions* (the *Circular*). As a recipient of federal awards, Howard University is required to meet the criteria outlined in this circular.

Adherence to the *Circular* is necessary to prevent cost disallowances and penalties by the federal government and other sponsoring agencies. Subpart C (2) of the *Circular* states:

- “The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.”

Additionally, the *Circular* provides guidance on the difference between direct and indirect costs as follows:

- “(1) In developing the departmental administration cost pool, 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 supplies (e.g., chemicals), telephone toll charges, animals, animal care costs, computer costs, travel costs, and specialized shop costs shall be treated as direct cost wherever identifiable to a particular cost objective. Direct charging of these costs may be accomplished through specific identification of individual costs to benefiting cost objectives, or through recharge centers or specialized service facilities, as appropriate under the circumstances. (2) The salaries of administrative and clerical staff should normally be treated as F&A costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity. ‘Major project’ is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments. Some examples of major projects are described in Exhibit C. (3) Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs.”



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All charges to sponsored research must be consistent with criteria established in this Direct and Indirect Cost Charging Policy, other applicable Howard University policies, and sponsor guidelines. All charges must be properly documented.

In addition, all costs charged to a sponsored project must comply with terms and conditions or restrictions of the Notice of Grant Award (NGA) or other award documentation. Examples include:

1. Cost must be incurred during the defined budget period
2. Cost must be within the budget requirements/limits of the award
3. Some costs may require prior written approval from the sponsor.
4. All cost transfers must occur within 90 days of the initial posting to the accounting system. If a transfer occurs after 90 days, additional documentation justifying the transfer is required.

Policy:

It is the policy of Howard University to comply with all Federal and Non-Federal guidelines and the terms and conditions of sponsored agreements¹ in allocating direct and indirect costs.

Business Process Description:

The Direct and Indirect Cost Charging Policy outlines how sponsored research expenses are budgeted and charged to projects at Howard University. Howard University personnel (i.e. Principal Investigators/Project Directors (PI/PD), Deans, Department Chairs, Budget administrators and department staff) should use this policy as a guideline when budgeting and charging direct and indirect costs to sponsored research. When determining allowability of costs charged directly to a project and/or charged to an appropriate department account, Howard personnel, PIs/PDs and department staff are responsible for understanding this policy and relevant external regulations.

Principal Investigator/Project Director (PI/PD) and department staff prepares the budget for sponsored research proposals consistent with sponsor guidelines and Howard University policy. PI/PD ensures costs are allowable and chargeable directly to the award. Additionally, the PI/PD and department staffs are responsible for retaining documentation of transactions that includes justification for all direct costs. This documentation should include an explanation of the benefit of each cost to the sponsored project and when applicable, an explanation of how the cost was allocated between multiple projects.

Deans and Department Chairs review the PI/PD's proposal and the associated Application to Seek Off-Campus Funds. As part of this review, they EITHER assure that Howard's full F&A rate has been incorporated accurately in the proposal's budget OR they recommend a waiver from that full F&A rate. In the latter case, the Chief Financial Officer (CFO) must approve the waiver. Either the CFO or the Vice

¹ The terms and conditions of awards may vary greatly depending on the nature of the work performed, the sponsoring agency and other factors. Even within the sphere of federal awards, certain terms and conditions may vary (e.g., different per diem rates or policies may apply or other aspects of an award may differ from sponsor to sponsor). In all cases, Howard University complies with sponsor guidelines and terms and conditions unless Howard University's policies are more restrictive, in which case Howard University's policies apply.

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President for Research and Compliance (VPRC) may require, at their discretion, that a departmental or school account be designated to cover the amount of the waived F&A costs (see below).

The Office of Sponsored Programs/Research Administration (OSP/RA) reviews the proposal budget for compliance with Howard University and sponsor guidelines before submitting the proposal to the sponsor. As part of this review, the Research Administrator (RA) assures that the appropriate F&A rate has been used in calculating the proposal's budget. For awarded projects, the RA also indicates in the award set-up document what F&A rate should be applied to costs as they are incurred.

The Chief Financial Officer (CFO) must approve any waiver of F&A costs. The CFO or the VPRC may require, at their discretion, that a departmental or school account be designated to cover the amount of the waived F&A costs.

Grant Accounting Accounting (GCA) periodically reviews selected costs that were directly charged to sponsored projects in order to monitor consistency with external regulations and Howard University policies. If GCA determines that a cost is not consistent with regulation or policy, they will inform the PI/PD and ensure that the cost is not charged to the sponsor. GCA also assures that the F&A rate included in the award set-up documentation received from OSP/RA is applied to post-award expenses.

Cost Allocation Guidance and Definitions:

This section defines key concepts and guidance on how specific types of expenses are charged for sponsored projects.

Sponsored Program/Project is defined by Howard University as any project for which external funds are provided in support of research, instruction, or training. A sponsored project should incorporate at least one of the following criteria, but, typically, sponsored awards incorporate several:

1. An agreement with the sponsor binding Howard University to a specific line of scholarly or scientific inquiry as detailed in a work statement or by stipulation of requirements for orderly testing or validation of particular approaches, or by the designation of performance targets. Excluded from this criterion are advances and contracts for publications involving scholarly writing and/or artistic creation.
2. A specific commitment regarding the level of personnel effort, items, output, or the achievement of specific performance targets as a condition of obtaining sponsorship.
3. Cost-sharing as a condition of obtaining sponsorship.
4. A line item budget detailing or limiting expenditures by activity function and project period to which adherence is a condition of funding.
5. The requirement that a detailed fiscal or activity report be submitted or that an external audit at intervals during the course of the work and/or at the end of the project period be conducted.
6. Overhead or F&A costs as a line item of the budget.
7. A requirement to return unexpended funds to the sponsor at the end of the project period.
8. The use or involvement of human subjects, laboratory animals, radiological hazards, biohazards, or recombinant DNA.

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9. An agreement that Howard University provide space/facilities beyond those that would otherwise be available to the investigator(s). In instances of government agency involvement, the requirement for Howard University to construct, alter, or renovate, or acquire equipment or facilities.
10. An agreement with the sponsor that Howard University dispose of tangible properties (e.g., equipment, records, supplies, technical reports, theses, dissertations) or intangible properties (e.g., rights in data, copyrights, patents, inventions) resulting from the research activity.

Project Costs are divided into two categories: (1) Direct costs and (2) Indirect costs (or facilities and administrative (F&A) costs). F&A costs are not easily identifiable to a particular cost objective (e.g., a sponsored project) and include such things as heating and lighting, building maintenance, department and college administration, libraries, and depreciation.

DIRECT COSTS

Direct Costs are costs that are clearly allocated to a project. These costs are typically itemized in the project budget. Direct costs include, but are not limited to, the following:

- Personnel (faculty, staff, postdoctoral fellows, graduate students, undergraduate students, etc.)
- Fringe benefits
- Consultants
- Stipends and Tuition
- Travel
- Equipment
- Materials and supplies
- Animal costs
- Subcontracts (and associated subrecipient F&A costs)
- Patient care costs
- Publication costs

Personnel costs are costs incurred for the personnel that expend time and effort on sponsored projects. If allowable, funds to cover the cost of time spent on a project are requested from the sponsor. If the sponsor does not allow these funds, the time can be contributed or cost-shared. PIs/PDs and department staff should review and understand sponsor policies regarding allowable costs prior to spending. Personnel may be appointed to and paid from projects by either a release-time appointment (committed effort) or a direct-project appointment (persons hired specifically for the project).

Significant Personnel Appointments Associated with Sponsored Projects

Principal Investigator/Project Director (PI/PD): The PI/PD has overall responsibility for the project. The PI/PS's effort/time commitment is clearly defined in the proposal.

Co-investigator and collaborator: These are other investigators associated with the project. The percent of the project handled by the co-investigators and collaborators should be defined in the grant or contract proposal.

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Postdoctoral/predoctoral appointment: Howard University has no pay scale for postdoctoral appointments. In the event that a person is awaiting appointment, a reasonable salary is proposed. Reasonableness is determined by reviewing departmental guidelines or appropriate external resources, such as the NIH Grants Policy Statement. The individual is considered an employee of Howard University and receives benefits. A postdoctoral assistant is also an employee of Howard University. Full-time employees of Howard University receive benefits.

Fellows²: Fellows are individuals supported by fellowship awards that are made directly to the individual through the University or sponsoring agency. Fellowships often provide an institutional allowance to the university to help cover administrative costs related to support of the fellow. Any other use of the institutional allowance requires prior approval from the VPRC or the Office of Sponsored Programs Manager.

Graduate assistant(s) (GA): Masters and doctoral students may be appointed as graduate assistants on a sponsored project. Some points to consider when budgeting for graduate assistants include the following:

- Fixed departmental stipends should be used.
- Graduate assistants generally have 50 percent appointments (0.5 FTE)

Other technical staff: This category includes research assistants, technicians, computer programmers, nurses, evaluators, as well as undergraduate assistants. When charging technical staff to an award, in the budget identify the title, name (if known), percent effort, and responsibilities just as would be done for the investigator or co-investigator.

Predocctoral researchers: These are individuals who have a baccalaureate degree that are enrolled in a doctoral program leading to a PhD., a comparable research doctoral degree, or a combined clinical degree, such as an M.D./PhD.

Secretarial/clerical/administrative/support staff: Typically, federal cost principles *do not allow* secretarial, administrative, or clerical support to be charged directly on research awards because these costs are included in the university's F&A cost base. However, a very small number of large or complex projects may require a significant amount of clerical assistance such that an administrator or clerk is appointed directly to the project. **The allocation of such direct costs requires compelling justification and the sponsor's explicit approval.**

Fringe benefits: Fringe benefits are non-salary/non-wage compensation received by employees of Howard University as part of their total compensation package. Fringe benefits, like F&A costs, are determined as the result of a negotiation with the federal government. This negotiation yields a set of rates used for different categories of employees. Based on these rates, a percentage of salary/wage compensation is included to cover fringe benefits each time personnel cost are requested on a sponsored activity. Fringe benefits are listed as a separate budget category. Costs associated with providing fringe benefits to research personnel are charged by multiplying the rates by the direct salary charges to

² The term "fellows" here does not include "clinical fellows" who are governed by House Staff policies at Howard University Hospital

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sponsored research projects. Contact OSP/RA for help in calculating the fringe benefit or determining the appropriate rate.

Examples of fringe benefits costs include:

- FICA
- Retirement
- Disability Insurance
- Life Insurance
- Tuition Remission
- Employee Recognition
- TIAA/CREF
- Workers' Compensation
- Unemployment and Health Insurance

Consultant/Collaborator Costs: Consultants are not Howard University employees and are listed separately from the personnel salary category. Each consultant is listed by his or her name, their location, and the expertise provided to the project. Expenses for consultants may include fees to be paid (either hourly or daily rates) as well as expenses (e.g., travel and lodging). Contact OSP/RA to obtain regulations on per diem cost limitations for consultants. Refer to Consultant Services policy for further guidance.

Note: Howard University faculty and staff are not paid as consultants on sponsored projects. Faculty and staff are listed as project personnel for a percentage of their overall time. The consultant is an independent contractor and the employee/employer relationship must not exist. Refer to Subcontract Execution and Approval policy for further guidance. Consultants must be in good standing with the federal government (i.e., not debarred from doing work for the federal government). The individual's status can be determined by searching the Excluded Parties Listing System at <http://www.epls.gov/>. Refer to the Subcontract Execution and Approval policy for consultant subcontract guidance.

Howard University uses the following criteria for consultant approval:

- The nature and scope of the consultant's service advance the project's scope of work.
- The consultant is not an employee of Howard University.
- If there is a conflict of interest with the individual providing the services, it is appropriately managed (any conflict of interest, should be disclosed by the PI/PD and/or other investigator(s) on the Conflict of Interest Form and submitted to OSP/RA).
- Howard University's current resources should be considered to determine if the consultant is a necessary service.
- Consideration is given to the reasonableness of the consultant's costs in relation to customary fees charged, other independent contractors, sponsor guidelines, and industry standards.
- An assessment is made regarding whether the service can be performed more economically by direct employment or through other means.
- The qualifications and credentials of the individual are consistent with the requirements of the scope of work.

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- The contractual agreement is adequate for the services provided (e.g., description of the service, estimate of time required, rate of compensation, indemnification of Howard University and termination provisions).
- The Accounts Payable and Employee versus Independent Contractor forms are complete and are supported with appropriate documentation.
- If the consultant is an immediate family member of key personnel on the award, a conflict of interest exists and must be disclosed on the Conflicts of Interest Form. The use of the consultant must be approved by the Office of Sponsored Programs Manager.
- Consultants should not have an affiliation with another institution that conducts research having a bearing on the specific Howard University research project they are supporting. If they do, they are a subcontractor and there should be a subcontract between Howard University and the institution under the prime award.

Stipends and Tuition: Stipend and tuition costs are allowable direct charges allocated to a project at the rate defined in the approved budget and within sponsor guidelines. Stipend levels for NIH training grants are published each year on the NIH website (<http://grants1.nih.gov/training/nrsa.htm> - *inst*). Other sponsors have similar limits for stipend levels and these should be reviewed during the preparation of the project's budget. Any changes in stipend and/or tuition rates require sponsor approval.

Travel: Travel costs include transportation, lodging, and per diem rates. These costs must meet the criteria established in Howard University's Travel policies (<http://y2kc.howard.edu/Travel/travndx.htm>). The type and extent of travel, both international and domestic, and its role in the project, is specified in the budget. Destinations are specifically identified. Subsistence expenses (lodging and meals) are also included. Most federal agencies require specific travel information such as, the number of days, the number of people per trip, the destination, a per diem breakdown, as well as the registration costs for technical or professional conferences.

Domestic travel is travel within the continental United States. **All other travel is foreign travel.** Sponsors often require a heightened level of justification for foreign travel as compared to domestic travel. Foreign travel for a conference or meeting should provide specific details of the trip including the name, dates, and location of the conference or meeting. If the foreign travel involves anything other than attendance at a professional meeting, a detailed justification for the travel should also be provided.

Additionally, travel guidelines or requirements listed in the sponsored project award document are followed. Examples include:

- Travel costs (except per diem and mileage) are charged on an actual basis.
- First class airfare is not reimbursable except in extraordinary circumstances and must always be pre-approved by OSP/RA and often by the sponsor.
- Airfare is coach class, unless otherwise directed by a physician for medical reasons.

Generally, costs incurred in connection with travel must meet two conditions to qualify for reimbursement:

1. Expenditures are approved using the Request for Travel authorization. The approving authority has the option of approving the total estimated cost for a trip or approving costs with a ceiling on the total

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authorized expenditures. If the total estimated expenditure is approved, the traveler is entitled to reimbursement for all legitimate expenditures as defined in this policy and by applicable regulation. However, if the actual expenditures are not reasonable when compared to the estimated costs, additional approvals for the excess expenditures are required before the traveler receives full reimbursement of expenditures.

Note: All related and estimated expenditures for individual travel must be included on the Request for Travel Authorization form. This includes transportation and registration fees. Service Request and Purchase Request forms are not used in connection with any travel for which a Request for Travel Authorization form is required.

2. Validated receipts are required for expenditures. Only original receipts are acceptable, copies are not honored unless there are verifiable extenuating circumstances.

Travel expenses that meet these guidelines, are included in the awarded budget, and are in accordance with award terms and conditions do not require further approval. These expenses can be directly charged to a sponsored project. If travel costs exceed the budgeted amount or if travel was not included in the awarded budget, refer to the specific sponsor guidelines regarding the allowability of travel. Some sponsors require prior approval in order to reimburse travel expenses. For more specific information on allowable travel expenditures, see section below on “Determining Allowable and Unallowable Costs.”

Meals & Entertainment: Meals and entertainment expenses apply to all sponsored projects. Research staff and PIs/PDs must adhere to the sponsor’s travel, meals, and entertainment guidelines. If the sponsor’s website does not contain their policy regarding meals and entertainment reimbursement, the sponsor should be contacted in order to determine if there is an applicable policy. Many sponsors have guidelines or regulations that are stricter than those of Howard University. In this event, the sponsor guidelines are followed. Conversely, even if the sponsor allows a larger amount to be expended than Howard University’s travel policies allow, Howard University’s restrictions apply.

Examples of items not allowable as Meals and Entertainment Expenses are listed below:

- Alcohol
- Magazines/Newspapers
- Movies
- Flowers
- Gifts souvenirs
- Concerts/Events
- Balloons
- Spa treatment

For more specific information on allowable expenditures, see section below on “Determining Allowable and Unallowable Costs.”

Equipment: Equipment is segmented as either Capital Equipment or non-Capital Equipment. Capital Equipment is defined in terms of the minimum acquisition cost and the minimum useful life of the equipment. Howard University’s guidelines for capital equipment are established by the Senior Vice

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President, Chief Financial Officer and Treasurer. Sponsors may have different definitions of capital equipment for reporting purchases. Howard University's guidelines must be used internally to capture depreciation appropriately; sponsor guidelines must be used for reporting to the sponsor and complying with relevant terms and conditions of the award. Equipment is itemized and described in the budget with the purpose of the equipment identified in the proposal. If equipment was specified in the awarded budget, further approval is generally not required. However, if the approved budget did not include the desired equipment, most agencies require prior approval.

In submitting a request to the sponsor for prior approval (or including equipment in a proposal), provide as much detail and justification as possible and submit the request through OSP/RA. Large purchase requests should include copies of written bids, quotes, catalog prices, and prior purchase documentation, where available. Generally, equipment expenses are allowable only in instances in which the equipment is not available or accessible at the University. Freight and installation costs should be included in the purchase price. Equipment maintenance costs, such as leases and rentals should be budgeted as "other direct costs."

Note: In accordance with OMB Circular A-21, except where approved in advance by the sponsoring agency, equipment used for general purposes is not allowable as a direct cost to federally sponsored projects.

Consumable Materials: Consumable materials include glassware, chemicals, and lab supplies. A list of the types and cost estimates for consumable materials and supplies that are directly related to the project are included in the proposed budget with enough detail for the reviewers to determine whether these costs are appropriate for the project. If the list is extensive, provide a detailed list as an addendum to the budget page.

Supplies directly related to the project, such as Technical or Scientific Supplies, are allowable if they are purchased to benefit the project directly. Other supply charges, such as Clerical and Office Supplies, are allowable in circumstances in which they are necessary to complete the project and will not be used on another project. In general, Clerical and Office Supplies are examples of charges that are included in the University's F&A rate and are often unallowable as direct charges (see F&A Rate section below).

Animal Care: Veterinary Services has general oversight responsibility for all vertebrate animals used in research projects. This includes responsibility for purchase, care and maintenance of the animals in Veterinary Services-approved facilities. Veterinary Services has per diem charges for animal maintenance. The costs for purchase, care, and maintenance of the animals must be included in the proposal. These costs are allowable direct charges to a sponsored project as defined by the sponsor guidelines and included in the awarded budget. **Funds budgeted for Animal Care may not be rebudgeted without OSP/RA approval.** If animal care costs exceed the budgeted amount or were not included in the awarded budget, refer to the sponsor guidelines regarding the allowability of these costs. Some sponsors require prior approval for these types of expenses or re-budgeting. Contact the Institutional Animal Care and Use Committee (IACUC) for information regarding approval of an animal protocol.

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Subcontracts (Consortium/Contractual Costs): Subcontracts occur if personnel at institution A conduct a key part of proposed work for institution B (referred to as the prime institution) that was awarded the funds from the sponsor. The funds that pay for the research being conducted are transferred to institution A by means of a subcontract or subaward agreement. Subcontracts, like contracts and grants, are always awarded to an institution or organization, not an individual. If an individual not affiliated with another organization is doing part of the work, that individual must be paid as a consultant. (Refer to Consultant Cost section above)

Howard University project personnel cannot have a financial interest in any organization receiving a subcontract under a prime award with which they are working. (See Howard University's Conflict of Interest Policy).

When completing the budget justification, list the subcontractor's total cost as a single item, including the subcontractor's fringe benefits and F&A costs, if applicable. This total becomes part of Howard University's direct cost base (except on NIH modular grants). A detailed description of what is included in the total also should be provided, as few sponsors or auditors will accept a quote without an explanation of how the figure was derived.

A detailed budget is submitted by a potential subcontractor and signed by an authorized institutional official from the subcontracting institution to indicate that all institutional conditions have been satisfied. When a PI/PD is being included in another organization's proposal (in which Howard University is the subcontractor), the PI/PD's budget and work plan should be approved as usual by his/her department head and dean, and then processed through OSP/RA, where an official letter of collaboration will be provided to the other institution.

Note: If the proposal is funded, a subcontract document is initiated by Howard University to the subrecipient. If the primary award is from a federal agency, certain regulations may dictate the items that must appear in the subcontract; specifically whether the agency requires the subcontractor to accept "flow down" clauses from the prime contract. The RAs in OSP/RA are the only individuals authorized to construct subcontracts for the sponsored project. For more information on Subcontracts refer to the *Subcontract Execution and Approval* policy located on the OSP/RA website <http://ovprc.howard.edu>.

Subcontracts are appropriate only for third parties conducting a portion of Howard University prime sponsored research. Subcontracts should not be used to purchase "services." The proper paperwork for "service" expenses is a service request. List such expenses in the budget under "other direct costs" and provide an explanation of the services to be purchased.

Subcontract agreements specified in the awarded budget are allowable direct charges to a sponsored project. If a subcontract is not in the awarded budget, refer to the sponsor guidelines for their specific requirements. Please refer to the Subcontract Execution and Approval, and the Proposal Development and Submission policies.

INDIRECT COSTS or FACILITIES AND ADMINISTRATIVE (F&A) COSTS:

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Section E (1) of the *Circular* defines Facilities and Administrative (F&A) as costs “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.” F&A costs are commonly referred to as “indirect costs” or “overhead”.

Examples of F&A costs include:

- Salaries, wages, and fringe benefits for clerical and administrative staff
- Office supplies (basic supplies)
- Subscriptions
- Library books
- Periodicals
- Memberships
- Office and general equipments (e.g., desks, chairs, computers)
- Photocopying
- Postage
- Repair and maintenance (e.g., equipment, remodeling)
- Telephone and internet (e.g., monthly bills, installation, maintenance)
- Utilities
- Proposal development costs

Note: See the Exceptions – Charging F&A-type Costs as Direct Costs section of this document for special circumstances where it is appropriate to charge costs listed above directly to a sponsored project.

To simplify the process of F&A cost recovery, every few years Howard University performs an analysis of F&A costs associated with the sponsored programs activities over the preceding few years. This amount is expressed as a percentage of the costs directly allocable to the same activities. The University and the U.S. Department of Health and Human Services (Howard University’s cognizant audit agency) conduct a negotiation process that culminates in the approval of a set of F&A costs rates for the next several years (generally 3 to 4 years).

Generally, F&A costs are computed based on a percentage of “modified total direct costs”. The rate that applies to any specific proposal or award depends on the type of project and where the sponsored program activity is conducted (on-campus or off-campus).

On-campus projects are defined as having 50% or more of the effort performed in an on-campus location. The federal government limits F&A rate recovery for off-campus projects to the “administrative” component of the F&A rate.

Off-campus projects are defined as projects having more than 50% of the effort performed in an off-campus location.

The appropriate rate must be used in computing the budgeted costs for projects. F&A rates can be found at <http://ovprc.howard.edu>

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Always use the appropriate federal F&A rate for each proposal and award unless a waiver of the full rate has been approved by the CFO.

Federal:

The official published Howard University F&A rate (see above) should be used. Exceptions are provided for federal programs that publish a lower rate. Training grants, career awards, certain RFP's or RFA's are examples of exceptions. Different rates will apply, depending on where the research is taking place (on-campus or off-campus) (see above).

Non-Federal:

Many non-federal sponsors, such as foundations, limit the percentage of F&A that they will pay. In these cases, it is Howard University's policy to charge the maximum amount allowed by the sponsor. If the rates are published, the published rate will be charged. If the rate is not published, OSP/RA will directly negotiate with the sponsor to determine a mutually agreeable rate. An F&A cost waiver is required if the negotiated federal rate is not applied.

Subcontracts:

It is important to determine the original source of funding on any "sub-in" or "sub-out" agreement, because the source may be federal (federal "pass-thru") or non-federal. When calculating F&A on modified total direct costs (MTDC) for a federal award, for instance, the prime awardee is allowed to charge F&A on an initial portion³ of the total amount given to each subrecipient for the entire project period. Based on the source of the subcontract, the appropriate F&A criteria listed above should be utilized in determining the rate. For further guidance, please review the Subrecipient Invoice Review and Subrecipient Monitoring policies located on the OSP/RA website <http://ovprc.howard.edu>.

Charging Facilities and Administrative Rates

Federal Sponsors: The full federally negotiated rate will always be charged when permitted by the federal government. A lower rate requires a waiver.

Foreign Government: Foreign governments will always be charged the full federally negotiated rate on all research and sponsored programs/projects. A lower rate requires a waiver.

Industry: The full federally negotiated rate will always be charged on all industry-sponsored research. A lower rate requires a waiver.

Nonprofit Sponsors: Howard University accepts lower F&A rates from non-profit sponsors once their rates are published and applied consistently to all Howard University grant recipients. F&A cost waivers are required for non-profit foundations/voluntary health organizations/corporations if the negotiated federal rate is not applied.

³ In 2006, the portion was the first \$25,000, but this is subject to change in future years.

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State and Local Governments: Howard University treats all State and Local Government grant awards in the same manner as the Federal awards. The full federal rate will be charged unless the agency has an explicit published policy requiring a different rate. A waiver of the full federally negotiated rate is required for State and Local Governments.

Note: The CFO must approve any waivers of F&A rates. (The imposition of an overall ceiling on the total amount of an award by an agency is not considered adequate justification for a waiver of F&A costs. If the direct funds available are not sufficient to conduct the project, the scope of work for the project should be reduced to match the funding available from the agency.)

Exceptions - Charging F&A-type Costs as Direct Costs

Indirect costs at Howard University are charged to a grant by means of the F&A rate (see Facilities and Administrative Rate section of this document). Therefore, charging an F&A cost as a direct cost is unallowable as Howard University would be charging a sponsor twice for the same expense.

However, there are times when it is allowable to charge costs directly to a grant that are normally considered F&A costs. Justification for these types of charges must be well documented by the person incurring the cost. Examples of circumstances where direct charging of costs normally considered F&A costs are appropriate include:

- Projects that require extensive data collection, accumulation, analysis, and/or cataloging
- Projects that require preparation and production of manuals, large reports, and books to meet the objectives of a specific sponsored project
- Projects designated as off-campus and are charged the off-campus F&A Cost rate; for example, off-campus projects are allowed to have rent and utilities directly charged

Examples of F&A Exceptions on Direct Costs:

Postage/Photocopies:

These expenses are only allowable direct charges to a sponsored project if it is documented that there is a direct benefit to the project (e.g., if a survey is being conducted as part of a project, the photocopy and mailing expenses are allowable direct charges).

Office Supplies:

These expenses only are allowable direct charges to a sponsored project if it is documented that there is a significantly greater amount required for a project (e.g., if a large number of compact discs need to be purchased to store data).

Meetings and Conferences:

Cost of meetings and conferences, whose primary purpose is the dissemination of technical information, are allowable charges to a sponsored project, if it is detailed in the proposal as well as provided for in the awarded budget and directly benefits the project.

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Telecommunications:

In general, only the telecommunications costs associated with a specific project are charged directly to the relevant sponsored project (e.g., long distance charges can be direct charges to a sponsored project if the call was a direct benefit to the project). Records should document the appropriateness of these charges in all instances. If a telephone has been installed for the sole use of a particular grant or contract activity (e.g. if conducting a phone survey is an objective of the project) and it will be removed when the project terminates, monthly service, message service, and non-toll expenses can be charged to the sponsored project. Cell phones, pagers, personal digital assistants (e.g., Palm Pilots, etc.), and home Internet Service Provider charges are only allowable if explicit approval from the sponsor is received, programmatic necessity can be documented, and these services are used exclusively for the sponsored project(s). No other telecommunication expenses should be charged as direct costs to a sponsored project.

The following examples illustrate exceptional circumstances where direct charges to sponsored accounts may be appropriate:

- Professor A has a grant that requires a large mail survey. He/she charges the grant directly for the cost of postage and paper related to the survey.
- Professor B charges the cost of a dedicated telephone line directly to his/her grant. The phone line is dedicated to communicating with current and prospective clients related directly to the scope of the research project.

When exceptional circumstances exist, the PI/PD should request a **Cost Accounting Standards (CAS) exception** from GCA (or other unit to be determined in the university's reorganization of research administration). If GCA (or other unit to be determined in the university's reorganization of research administration) determines that the circumstances are significantly different from the assumptions used to develop the university's F&A rate, it will approve the CAS exception. ALL of the following conditions must be met to justify a CAS exception.

1. The project has a special need for the item or service beyond the level of services that are normally provided by academic departments.
2. The cost can be specifically identified to the work conducted under the project and is appropriately documented.
3. The cost is specified in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal OR the Grants Management Specialist or Contracting Officer has given prior written approval for the cost as a direct charge item.
4. The sponsoring agency accepts the cost as part of the project's direct cost budget (i.e., does not specifically disapprove the cost in the award or other notification to the University).

If the cost meets the conditions in 1 and 2 above yet was not included in the approved budget of the sponsored agreement, the cost may be charged directly to the agreement if Howard University has re-budgeting authority under Federal regulations or the terms of the sponsored agreement, and the charge is justified and approved by GCA. The justification must be in writing and provide the same information

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that would have been provided to the sponsoring agency in the proposed project budget. The justification must also explain why the cost was not in the original budget. Approval of these requests as a CAS exception will be provided if GCA and OSP/RA are both satisfied that the sponsoring agency would have approved the cost had it been in the original budget.

Determining Allowable and Unallowable Costs:

Allowable costs must meet the terms and conditions of the award and the test of reasonableness. It is the responsibility of each PI/PD to monitor the award budget and ensure that purchases are made in a timely manner. It is important to consider the total time it could take for 1) Howard University to process a purchase requisition and create a Purchase Order, 2) the vendor to process and ship an order and, 3) to consume the products purchased. Costly and multiple purchases made towards the end of a budget period (i.e., a large number of standard lab supplies purchased during the last week of an award), where it is not reasonable to expect the products purchased can be used by the end date of the project, are considered unallowable. Purchasing any item to “use up” available funds is prohibited by federal regulation. All costs charged to a project must specifically benefit the project they are charged.

Certain costs are not allowable charges to a sponsored project, either directly or indirectly. Howard University reviews costs based on the guidelines in OMB Circular A-21 (http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html#j).

Unacceptable Direct Charging Practices:

The following practices are inappropriate for charging direct costs to a sponsored project:

- Shifting costs to other sponsored projects in order to meet budget or funding deficiencies
- Shifting costs to other sponsored projects to avoid sponsor restrictions
- Assigning costs to projects based on remaining balance, such as:
 - Assigning large equipment expenditures at the end of a project
 - Increasing salary expenses on a project with an available balance when it is not consistent with the actual effort expended
- Charging costs incurred for multiple projects or functions to several sponsored projects when there is difficulty determining the relative benefit of the cost to each sponsored project (see Charging Costs to Multiple Projects below)
- Charging an expense exclusively to one award when the expense was used for other project activities (see Charging Costs to Multiple Projects below)
- Rotating charges among projects without establishing that the rotation schedule accurately reflects the relative benefit to each project during that specified period
- Charging the budgeted amount (in contrast to charging an amount based on actual costs)
- Assigning charges to an award before the cost is incurred (with the exception of deposits)
- Assigning charges that are part of the normal administrative support for awards (e.g. proposal preparation, accounting, payroll)

Charging Cost to Multiple Projects

Some direct costs may benefit multiple projects (e.g., copying/publishing costs, bulk lab supplies). Such costs may be allocated to projects in proportion to the benefit each project derives from them.

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Allocation of costs to multiple projects may not be performed merely for convenience or because of differences in the projects' available fund balances.

The NIH Grants Policy Statement says:

“When salaries or other activities are supported by two or more sources, issues arise as to how the direct costs should be allocated among the sources of support. **In general, a cost that benefits two or more projects or activities in proportions that can be determined without undue effort or cost should be allocated to the projects based on the proportional benefit.** A cost that benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved may be allocated or transferred to the benefiting projects on any **reasonable** basis.” (Emphasis provided)

The method for allocating direct costs to multiple projects must be identified in advance of the allocation and documented so a person unfamiliar with research administration would understand it. PI/PDs should seek guidance from OSP/RA in determining the allocation methodology to be used on their awards. Documentation to split costs for purchase requisitions should be included in departmental records. Documentation for allocation of special check requests through Accounts Payable should be documented in the comment sections of the request. The allocation method must be consistently applied to all sponsored projects in a defined group (e.g., department, PI, etc.). **Changing allocation methods over the life of the award is not acceptable.**

This can be a complex matter with significant implications for the university's compliance with financial regulations. **All questions should be directed to OSP/RA.**

Some reasonable methods to allocate costs to multiple projects include allocating costs based on:

- Number of lab personnel working on each project
- Number of activities performed, e.g. project A has 20 experiments and project B has 40 experiments therefore 1/3 of the costs will be allocated to project A and 2/3 of the costs will be allocated to project B
- Rates established by service center or other lab that highly correlates with the cost being allocated, e.g. animal facility charges
- An inventory tracking sheet

Cost methods that should **NOT** be used to allocate costs to multiple projects include allocating costs based on:

- Budget amount
- Remaining unspent funds
- Rotating costs between projects

Periodic audits will be performed

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Roles and Responsibilities:

Academic Departments

- **Principal Investigator/Project Director (PI/PD) and department administrator:** It is the responsibility of each PI/PD to use funds in a manner consistent with sponsor regulations and Howard University policies. This includes understanding what costs are allowable on sponsored projects, and determining if expenses are charged directly to a sponsored project or charged to a non-sponsored project. PIs/PDs and department administrators are responsible for understanding and following sponsor, Howard University, and Federal guidelines in order to ensure that costs are appropriately and consistently budgeted and properly applied to sponsored projects. PIs/PDs and department administrators are responsible for documenting transactions in compliance with this policy.
- **Deans and Department Chairs:** It is the responsibility of the appropriate Dean and/or Department Chair to review the PI/PD's proposal and the associated Application to Seek Off-Campus Funds. As part of this review, they EITHER assure that Howard's full F&A rate has been incorporated accurately in the proposal's budget OR they approve a waiver from that full F&A rate. In the latter case, the Chief Financial Officer must approve the waiver. Either the CFO or the VPRC may require, at their discretion, that a departmental or school account be designated to cover the amount of the waived F&A costs (see below).

Office of the Vice President for Research and Compliance

- **The Vice President for Research & Compliance (VPRC):** Either the VPRC or the CFO may require, at their discretion, that a departmental or school account be designated to cover the amount of the waived F&A costs.

Office of Sponsored Programs/Research Administration (OSP/RA)

- **Research Administrators (RA):** The RAs conduct a complete review of proposed budgets, other Howard University policies, and sponsor requirements for compliance measures. OSP/RA is also a resource for PIs/PDs and department administrators in providing clarification (when needed) for budgeting costs on sponsored projects.

Restricted Fund Accounting

- **Accountant:** The accountant reviews costs that are directly charged to a sponsored project for consistency with sponsor and Howard University guidelines. The accountant is also a resource for PIs and department administrators in providing clarification (when needed) for charging costs on sponsored projects. In addition, the Accountant also assures that the F&A rate included in the award set-up documentation received from OSP/RA is applied to post-award expenses.
- The individual in GCA (or other unit to be determined in the university's reorganization of research administration) who is responsible for overseeing the university's F&A rate is also responsible for approving CAS exceptions.

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Office of the Senior Vice President, Chief Financial Officer and Treasurer

- **Senior Vice President, Chief Financial Officer and Treasurer:** The CFO must approve any waiver of F&A costs. Either the CFO or the VPRC may require, at their discretion, that a departmental or school account be designated to cover the amount of the waived F&A costs.

Related Policies and Procedures:

- Cost Transfer/Procurement Card Policy
- Internal Controls Policy
- Subrecipient Invoice Review Policy
- Subrecipient Monitoring Policy
- Stipend and Tuition Reimbursement Policy
- Cost Sharing Policy
- Invoicing Policy
- Cost Transfer Policy

Forms and Links:

- OVPRC Website: <http://ovprc.howard.edu/>
- [Office of Management and Budget Circular A-21](http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html#j)
http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html#j
- NIH Grants Policy Statement (12/03)
http://grants.nih.gov/grants/policy/nihgps_2003/index.htm
- Budget Justification form
- Facilities & Administration Cost Waiver Agreement
- Service Request form
- Accounts Payable form
- W9
- Employee vs. Independent Contractor form
- Statement of Consultant Services
- Budget template