SYMPOSIUM FOR RESEARCH ADMINISTRATORS 2017
Classifying and Paying for Direct vs. Indirect Costs

Introduction

How do you classify direct and indirect costs and how do you pay for those costs?

Allowability

Allowability During Award Life Cycle
Allowability During Award Life Cycle

- Proposal budget
- Period of performance
- Closeout
- Audit

Allowability

- Costs may be allowable as a direct or indirect cost
- Only certain costs can be directly charged to award
- Is this cost direct or indirect?
- Can the cost be direct charged?
- If cost cannot be directly charged to award, what are other options?
Definitions

What are direct and indirect costs?

Direct Costs

- Charged directly to sponsored projects
- Clearly identified within that project’s activities and objectives
- Essential and easily/accurately allocable to the project
- Also allowable and reasonable per agreement and guidance

Indirect Costs

Direct & Indirect Costs
Indirect Costs

- Also known as overhead costs or F&A (facilities and administrative) costs
- Not directly related to a specific sponsored project. Instead, incurred for common or joint objectives
- Charged to non-sponsored funds: 150, 101 (GPR), 233 (gifts), endowments, etc.
- Indirect costs are recovered through a separate process

Direct & Indirect Costs

- Both direct and indirect costs are key to our institution’s ability to conduct research.
- The total cost of sponsored research includes both the direct and indirect costs.
- Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect.
- Classification between direct and indirect costs depends on many factors! (It depends!)
Examples and Comparison

What are some examples of direct and indirect costs?

Examples of Direct Costs

Direct Costs generally include:
- salaries
- fringe benefits
- supplies
- travel and services

Other Direct Costs may include:
- subject and patient care costs
- publication expenses
Examples of Indirect Costs

Indirect Costs generally include:
- office supplies
- local phone services
- general use computing devices
- shipping costs
- general administration salaries and other expenses

Other Indirect Costs include:
- depreciation
- interest
- operations and maintenance

Table Comparison

To be a direct cost, it must be reasonable, allowable, allocable, and consistently treated as direct vs. indirect. Remember - "It depends!"

<table>
<thead>
<tr>
<th>Expense Category</th>
<th>Direct Cost</th>
<th>Indirect Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and Fringe</td>
<td>For employees who work on the project and their related fringe benefit costs.</td>
<td>For general UW business purposes, including administrative support.</td>
</tr>
<tr>
<td>Computing Devices and</td>
<td>When essential and allocable in the performance of the project, and meeting</td>
<td>For general use, and not meeting the direct cost criteria (see RSP Guidance</td>
</tr>
<tr>
<td>Peripherals</td>
<td>the direct cost criteria (see RSP Guidance for the Purchase of Personal</td>
<td>for the Purchase of Personal Computers and Electronic Devices on Sponsored</td>
</tr>
<tr>
<td>Materials and Supplies</td>
<td>When necessary to carry out the project's objectives.</td>
<td>For general or shared use (i.e. not easily/accurately allocable to the specific</td>
</tr>
<tr>
<td></td>
<td>For general UW business purposes, and in accordance with UW-Madison travel</td>
<td>project).</td>
</tr>
<tr>
<td></td>
<td>policy.</td>
<td>For general UW business purposes, and/or not itemized.</td>
</tr>
<tr>
<td>Travel</td>
<td>When necessary for conducting and sharing research, and in accordance with</td>
<td>For general UW business purposes.</td>
</tr>
<tr>
<td></td>
<td>UW-Madison travel policy.</td>
<td></td>
</tr>
<tr>
<td>Long-Distance Phone</td>
<td>When necessary for the performance of the scope of work, if itemized.</td>
<td></td>
</tr>
<tr>
<td>Calls</td>
<td>For general UW business purposes purposes, and/or not itemized.</td>
<td></td>
</tr>
<tr>
<td>Postage and Shipping</td>
<td>When necessary for the performance of the project.</td>
<td>For general UW business purposes.</td>
</tr>
<tr>
<td>Relocation Costs</td>
<td>When the move benefits UW-Madison and the sponsored project, involves a</td>
<td>For general UW business purposes.</td>
</tr>
<tr>
<td></td>
<td>permanent change of duty assignment (indefinite period or at minimum 12</td>
<td></td>
</tr>
<tr>
<td></td>
<td>months), and reimbursement is made in accordance with UW-Madison policy.</td>
<td></td>
</tr>
</tbody>
</table>
Direct or Indirect Cost?

Let’s look at some example scenarios.

Please access our polling site at:

https://pollev.com/emilykonkol614
or
text EMILYKONKOL614 to 22333 once to join
(data and messaging rates may apply)

Direct or Indirect Cost?

Research coordinator Ned asks you to buy paper and postage and charge a sponsored research grant. He needs the paper and postage so he can send out research surveys to recruit research participants for the study.

Are these costs direct or indirect? __________

Resources:
- RSP Allowable Direct Costs on Sponsored Projects: https://www.rsp.wisc.edu/awardmgt/directcosts.cfm
- Uniform Guidance: Subpart E, Cost Principles, §200.473
Direct or Indirect Cost?

You’re helping PI Jones develop a research budget for her grant proposal. She included budget lines for your salary and fringe since she ‘knows you’ll end up helping her manage this award if it’s funded.’ She’s referring to the fact that you are the department’s pcard holder and go-to person for grants management questions. You are the research administrator for the entire department and assist many PIs.

Are these costs direct or indirect? ________________

Resources:
- RSP Guidance on Direct Charging of Administrative and Clerical Salaries:
  - https://www.rsp.wisc.edu/UG/admin_clerical_guidance.html
- RSP Allowable Direct Costs on Sponsored Projects:
  - https://www.rsp.wisc.edu/awardmgt/directcosts.cfm
- RSP Frequently Asked Questions About Effort Reporting:
  - https://www.rsp.wisc.edu/effort/effortFAQ.cfm
- Uniform Guidance: Subpart E, Cost Principles, §200.413(c)

Direct or Indirect Cost?

Lab manager Rae asks you to order a new $2,000 lab computer using her PI’s sponsored project. She says the computer will only be used for the specified project, since a large part of the study involves computer analysis and the grant continues for three more years. This aligns with what you read in the sponsor-approved budget and budget justification.

Is this cost direct or indirect? ________________

Resources:
- RSP Guidance for the Purchase of Personal Computers & Electronic Devices on Sponsored Projects:
  - https://www.rsp.wisc.edu/UG/computing_device_guidance.cfm
- UW Computing Devices Request Form:
- RSP Allowable Direct Costs on Sponsored Projects:
  - https://www.rsp.wisc.edu/awardmgt/directcosts.cfm
- Uniform Guidance: Subpart E, Cost Principles, §200.453(c)
Direct or Indirect Cost?

After experiencing staff turnover, PI Harris recently hired Lab Manager Tom to help facilitate his research endeavors. PI Harris has ongoing sponsored research projects and a few unfunded projects for which he is attempting to gather pilot data for upcoming grant proposals. Tom will only stay on until Harris’ lab is running smoothly again. Tom moved to Madison from Boston and has incurred relocation costs. You need to provide HR with the appropriate funding string for Tom’s relocation costs, which were reimbursed following UW-Madison policy.

Are the relocation costs direct or indirect? __________

Resources:
- UW-Madison Policy/Procedure 201 N Relocation:
- UW-Madison Relocation Expenses Chart:
- RSP Allowable Direct Costs on Sponsored Projects:
  - https://www.rsp.wisc.edu/awardmgmt/directcosts.cfm
- Uniform Guidance: Subpart E, Cost Principles, 8200.463-464

Guidance

Where can I look for guidance to determine if a cost is direct or indirect?
Uniform Guidance

- 2 CFR 200
- Supersedes OMB Circulars
- Effective December 26, 2014
- Regulations issued by Office of Management and Budget
- Overarching guiding principles for all sponsored projects
- Governs award lifecycle from proposal through audit

Subpart E - Cost Principles

- Supersedes OMB Circular A-21
- Allowable costs = direct charges + allocable indirect charges
Factors affecting allowability of costs (200.403)

- Necessary and reasonable in the performance of the award
- Conform to cost principles AND terms and conditions of award
- In accordance with institutional policies & procedures and generally accepted accounting principles
  - Treated consistently
  - Adequately documented
  - Not included as cost sharing on another federal award

Classification of costs (200.412)

- No universal rule for classifying costs as either direct or indirect in every accounting system
- Costs may be direct with respect to one function, but indirect with respect to another function
- Each cost incurred for the same purpose must be treated consistently in like circumstances as either direct or indirect
Direct costs (200.413)

- Costs specifically identified with an award
- Costs that can be assigned relatively easily with a high degree of accuracy

Indirect (F&A) costs (200.414)

- Costs incurred for a common or joint purpose
- Costs not readily assignable without effort disproportionate to the results achieved
Selected Items of Cost

- 200.420 - 200.475
- Guidance about many individual items
- Not all inclusive
- Allowable **does not** equal direct

Appendix III - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs)
Indirect cost pools
To name a few:

- Operation and Maintenance Expenses
- General Administration and General Expenses
- Departmental Administration Expenses
- Sponsored Projects Administration

Items are identified in each indirect cost pool

For example, Operations and Maintenance:

- Administration, supervision, operation, maintenance, preservation, and protection of the institution's physical plant
- Repairs and ordinary or normal alterations of buildings, furniture and equipment
- Environmental safety
- Care of grounds

- Janitorial and utility services
- Maintenance and operation of buildings and other plant facilities
- Hazardous waste disposal
Non-federal

Award-Specific Terms & Conditions

- Applicable to specific award or project
Alternatives

What are my options if a cost cannot be charged directly to sponsored funding?

Reasons Why Direct Costs are not Covered by Sponsored Funding

- Unallowable as a direct cost
- As a general rule
- Per sponsor restrictions
- Limited funding
- At time of budget preparation
- Unknown direct cost incurred during project performance period
- Direct cost exceeds approved/awarded budget

Sources of Alternative Funding

Next Steps for Direct Costs not Covered by Sponsor...
Sources of Alternative Funding

- Fund 101 (GPR)
- Fund 233 (Gifts, endowment)
- Fund 135 (WARF)
  - Discretionary use projects only
- Fund 150 (Capital Exercise-Federal Overhead)
- Fund 133 (Nonfederal Overhead)
  - Discretionary non-sponsored projects only
- Fund 161 (Trust)
  - Discretionary use projects only

Indirect Cost Recovery Distribution Process

- Indirect cost (F&A) recovery from sponsors is collected and tracked by the Campus Budget Office
- Recovery is not dollar for dollar
- Portion of recovered F&A is kept by Campus to cover some of the F&A costs associated with sponsored projects and other institutional-wide costs such as:
  - Campus Administrative units
  - Operation & maintenance expenses
Indirect Cost Recovery Distribution Process

- Distribution to Divisions is based on a formula using a two-year average of direct expenditures and overhead generated along with weighting between the two categories and the two years.
- For fund 144 approximately 20% of recovered F&A is distributed to each Division (school/college) through a Division fund 150
- For fund 133 approximately 35% of recovered F&A is distributed to each Division (school/college) through a Division fund 133
- Distribution by each Division (school/college) is individualized

Next Steps for Direct Costs not Covered by Sponsored Funding

- Discuss/receive approval from Department/Dean/Division office on appropriate alternative funding source
- Work with administrative office to determine if cost:
  - Already paid - complete Cost Transfer
  - Future payment - identify proper funding source on payment mechanism
Questions?

Key Takeaway

Cost should be:
- allowable
- allocable
- reasonable
- consistently treated

Resources

Where do I go first to help me identify direct costs vs. indirect costs?
WISDM

- Terms and Conditions on requirements tab
- Agreement on associated docs tab

RSP Resources

- Allowable Direct Costs on Sponsored Projects – https://www.rsp.wisc.edu/awardmgmt/directcosts.cfm
- Explanation of Reasonable/Allocable/Allowable Costs – https://www.rsp.wisc.edu/awardmgmt/explanation_costs.html
- Costs of Federally Sponsored Research (COGR) – https://www.rsp.wisc.edu/understandingindirectcosts/FA_FAQ.pdf
Sponsor Resources

- Other sponsor specific resources

Uniform Guidance

- Uniform Guidance (2 CFR 200) - link
- Subpart E - Cost Principles - link
- Appendix III - link
Division

- Dean’s Fiscal Office
- Extramural Support Offices

RSP Accountant

- Accountant search by project or award ID
- Postaward management document for federal and non-federal

Accountant Search

For questions regarding financial reports, invoices, Fiscal policies for specific agencies, sub cost line submissions, other modifications, etc., contact the RSP accountant listed per award.

As of February 28, 2018, all transactions are being run through the new Grants Management System in WFM’s Accounts Receivable system.

Enter the project ID or award ID in the box above and click the “Search” button.

If the account is searched but does not exist, please provide the project ID or award ID to the RSP accountant listed per award.

For Federal Postaward Management

- Federal Postaward Management (updated 05/31/2018)
- Federal Postaward Management

23