

University of Rhode Island

**Direct and Indirect Costs  
Sponsored & Cost Accounting  
Policy #97-02**

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**I. Purpose:**

- A. Federal regulations require that the same types of costs be treated consistently as direct or indirect costs. Under these regulations, all costs incurred for the same purpose, in like circumstances, must be treated consistently as either direct costs or indirect costs.
- B. The purpose of this policy statement is to provide guidance to university staff to assure compliance with the federal requirements.

**II. Applicability:**

This policy applies to all federal and non-federal sponsored agreements (grants, contracts, and other agreements). However, costs normally treated as indirect, such as administrative and clerical salaries, may be directly charged to non-federal agreements if permitted by sponsor.

**III. Definitions:**

- A. **DIRECT COSTS:** Direct costs are those 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.
- B. **INDIRECT COSTS:** Indirect costs are those 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.

**IV. Consistent Treatment of Costs:**

Consistent treatment of costs is a basic cost accounting principle and is specifically required by Circular A-21 to assure that the same types of costs are not charged to federally sponsored agreements both as direct costs and as indirect costs. This concept is reinforced and emphasized in a Cost Accounting Standard (referred to as "CAS 502") that educational institutions are required to follow.

Consistency in this context means that costs incurred for the same purpose, in like circumstances, must be treated uniformly as either direct costs or as indirect costs. Thus, since certain types of costs, such as the salaries of administrative and clerical staff, office supplies, local telephone costs and postage are normally treated as indirect costs, the same types of costs cannot be charged directly to sponsored agreements, unless the circumstances related to a particular project are clearly different from the normal operations of the

institution. For example, although postage is normally treated as an indirect cost, a particular project may have a special need for postage because of the mailing of hundreds of survey questionnaires. In this case, it would be appropriate to charge the project directly for the postage to mail the questionnaires, since this would constitute special circumstances compared to routine postage requirements.

**V. Costs:**

The following types of costs should be directly charged to sponsored agreements where they can be specifically identified to the work performed under the agreements.

**A. SALARIES, WAGES, FRINGE BENEFITS**

- Faculty
- Research associates
- Postdoctoral fellows
- Technicians
- Lab assistants
- Graduate research assistants
- Other students performing scientific or technical work

**B. MATERIALS AND SUPPLIES**

- Laboratory supplies
- Chemicals
- Glassware
- Drugs
- Compressed gases and liquids
- Computer software – special purpose
- Books and periodicals
- Copy costs - page costs

**C. OTHER DIRECT COSTS**

- Travel
- Consulting services
- Printing
- Purchased services
- Publication costs
- Equipment – special purpose
- Equipment repair and maintenance
- Long distance telephone charges
- Sub-awards
- Service center charges
- Rent and other costs of off-campus facilities
- Mileage
- Boat rental

## **VI. Normal Indirect Costs:**

### **A. ADMINISTRATIVE AND CLERICAL SALARIES AND FRINGE BENEFITS**

1. Administrative and Clerical salaries and fringe benefits are normally indirect costs. These costs may be charged directly only under certain exceptional circumstances (see Appendix A).
2. An OMB interpretation to provide guidance on defining the circumstances under which administrative and clerical salaries may be charged directly to federally sponsored agreements is in Appendix A.
3. Administrative and clerical salaries may be charged directly only if they meet all of the following conditions:
  - a) They fall within the special circumstances described in the OMB interpretation.
  - b) The individuals have responsibilities specifically related to the work of the project and the effort devoted to the project is documented.
  - c) The title(s), percent of effort, and salary amount(s) for the clerical/administrative position(s) are included in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging of the services are justified in the proposal.
  - d) The sponsoring agency accepts the costs 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).
4. If an administrative or clerical salary meets the conditions in paragraph 3(a) and (b) above, but was not included in the approved budget of the sponsored agreement, the salary may be charged directly to the agreement only where the University has re-budgeting authority under Federal regulations or the terms of the sponsored agreement, and the charge is justified and approved by the Office of Sponsored Projects. The justification must be in writing and provide the same information that would have been provided to the sponsoring agency in the proposed project budget, and must explain why the salary was not in the original budget.
5. Approval of these requests will be given when the Office of Sponsored Projects is satisfied that the sponsoring agency would have approved the cost had it been in the original budget.

### **B. OTHER NORMAL INDIRECT COSTS**

1. The following costs are normally indirect. They may be charged directly only under special circumstances:
  - a) Office supplies (paper, pencils, pens, markers, binders, file folders)
  - b) Postage, including express mail
  - c) Facilities repairs and maintenance
  - d) Local telephone services (monthly rental)
  - e) Automotive maintenance
  - f) Membership dues
  - g) General purpose equipment repairs and maintenance
  - h) General purpose computer software
  - i) Items of a personal nature, such as clothing etc, unless specifically required by award
2. These costs may be directly charged only where they meet all of the following requirements:
  - a) The project has a special need for the item or service that is beyond the level of services normally provided.

- b) The costs can be specifically identified to the work conducted under the project.
  - c) The cost is specified in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal.
  - d) 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).
3. If the cost meets the conditions in 2(a) and (b) above, but was not included in the approved budget of the sponsored agreement, it may be charged directly to the agreement only where the University has re-budgeting authority under Federal regulations or the terms of the sponsored agreement, and the charge is justified and approved by the Office of Sponsored Projects. The justification must be in writing and provide the same information that would have been provided to the sponsoring agency in the proposed project budget, and must explain why the cost was not in the original budget.

Approval of these requests will be given when the Office of Sponsored Projects confirms the criteria that the sponsoring agency would have approved had the cost been in the original budget.

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## **APPENDIX A**

### **OMB Interpretation on Treatment of Administrative and Clerical Salaries**

#### *Question*

Section F.6.b. of the July 1993 revision of Circular A-21 says that the salaries of administrative and clerical staff should normally be treated as indirect costs. This section goes on to say that direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and the individuals involved can be specifically identified with the project or activity. What is the intent of this provision and under what circumstances may these costs be directly charged to sponsored agreements?

#### *Answer*

This provision is intended to establish the principle that the salaries of administrative and clerical staff should usually be treated as indirect costs, but that direct charging of these costs may be appropriate where the nature of the work performed under a particular project requires an extensive amount of administrative or clerical support which is significantly greater than the routine level of such services provided by academic departments. The costs would need to meet the general criteria

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for direct charging in Section D.1. - i.e., "be identified specifically with a particular sponsored project . . . relatively easily with a high degree of accuracy," and the special circumstances requiring direct charging of the services would need to be justified to the satisfaction of the awarding agency in the grant application or contract proposal.

The following examples are illustrative of circumstances where direct charging the salaries of administrative or clerical staff may be appropriate.

- Large, complex programs, such as General Clinical Research Centers, Primate Centers, Program Projects, Environmental Research Centers, Engineering Research Centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.
- Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting, such as epidemiological studies, clinical trials, and retrospective clinical records studies.
- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- Projects that are geographically inaccessible to normal departmental administrative services, such as seagoing research vessels, radio astronomy projects, and other research field sites that are remote from the campus.
- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocol, IRB preparations and/or other project-specific regulatory protocols; and multiple project-related investigator coordination and communications.

These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples. Where direct charges for administrative and clerical salaries are made, care must be exercised to assure that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities. This should be accomplished through a "Direct Charge Equivalent" or other mechanism that assigns the costs directly to the appropriate activities.