



D SUNY
DOWNSTATE
Medical Center



Direct Charging of Grants

December, 2014

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Uniform Guidance

- In accordance with the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 200.413, Direct costs are those costs that can be:
 - identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity,
 - that can be directly assigned to such activities relatively easily with a high degree of accuracy.
- In most cases, the highest level of direct costs charged to grants are salaries and fringe benefits for employees working on specific project.

Uniform Guidance

- In most cases, the highest level of direct costs charged to grants are salaries and fringe benefits for employees working on specific project. In some cases charges, such as administrative services costs which are usually classified as an Indirect Cost can be directly charged if the following terms are met:
 - Integral to the a project or activity
 - Can be specifically identified to the project or activity
 - Are explicitly included in the budget and receive prior approval
 - Costs are not also recovered in the indirect costs
- CFR 200.412, Classification of costs, states that although under various circumstances some costs may be classified as either direct or indirect:
 - it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as direct or indirect cost,
 - in order to avoid double charging the Federal government

OMB Circular A-21

- OMB Circular A-21 “Cost Principles for Educational Institutions” establishes principles for determining costs applicable to sponsored agreements, contracts, and other agreements with educational institutions.
- A-21 affects not only the establishment of indirect cost rates, but also the way in which direct costs are charged to sponsored programs.
- At The Research Foundation at Downstate, these regulations must be implemented regardless of whether the funding is from private, state or federal agencies

Reason for Guidance

- RF SUNY receives grant funding from various federal, state and local government agencies.
- As a condition of accepting these awards, the research Foundation must comply with federal regulatory guidelines:
 - *Office of Management and Budget(OMB) Circular A-21, "Cost Principles for Educational Institutions", and*
 - *"Code of Federal Regulation-Part 200 Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards".*
- While compliance begins with the Principal Investigators(PI's), it also includes department heads, and fiscal officers providing guidance and oversight of research and other sponsored activities; team approach.

General Guidance

- Allowability of costs is determined by the following guide:
 - Cost must be **reasonable**
 - Nature of the goods or services purchased must reflect what a prudent person would have done under the prevailing circumstances
 - Costs must be **related to the project**
 - The goods or services must provide a benefit to the project being directly charged.
 - Costs must be **allocable**
 - Federal guidance stresses the importance of consistent application of costing principles. Costs incurred for similar purposes must be handled the same way.
 - Costs directly benefiting a project should be directly charged, while others, fall into the indirect cost category and recovered through the F & A.

Other Considerations

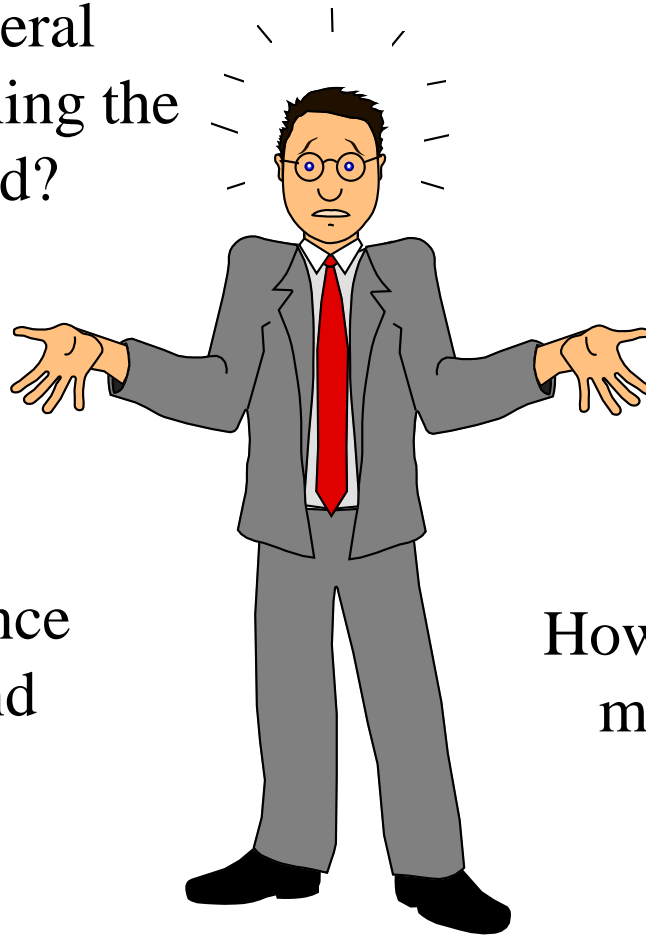
- **Direct Costs**: At SUNY Downstate, primary functions are Instruction, Research, Public Service, Clinical Practice and Other Institutional Activities.
 - Costs incurred to support these activities such as Salary, fringe, and supplies , etc., are treated as direct costs
 - If the direct cost benefit multiple programs, then in accordance with federal guidance, there needs to be a reasonable means of allocation and documentation to support basis used.
 - Direct charges to a sponsored agreements need to support and benefit the program being charged
- **Circular A21 and 2 CFR Part-200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards** cites examples of acceptable direct costs, and more detailed listings are highlighted in the Direct Costing Policy.
- **Indirect Costs**: Identified as those costs incurred for a common or joint activity that cannot be readily identified with a particular project.
 - Some costs which would normally be considered indirect costs may be exceptions and therefore considered direct costs if they meet the following special purpose circumstances:
 - Must be approved in the awarded budget.
 - Private sponsored only concerned with the total costs incurred.
 - City of State agreements with certain restrictions, but due to the nature of the scope of work, requires these costs and they can be readily identified.
 - Training grants.
 - Planning grants Geographically inaccessible to routine administrative support.
 - Large complex programs.
 - Projects requiring extensive data accumulation.

Why is Cost Allocation Important?

What are the Federal requirements governing the funding received?

What are allowable or unallowed costs?

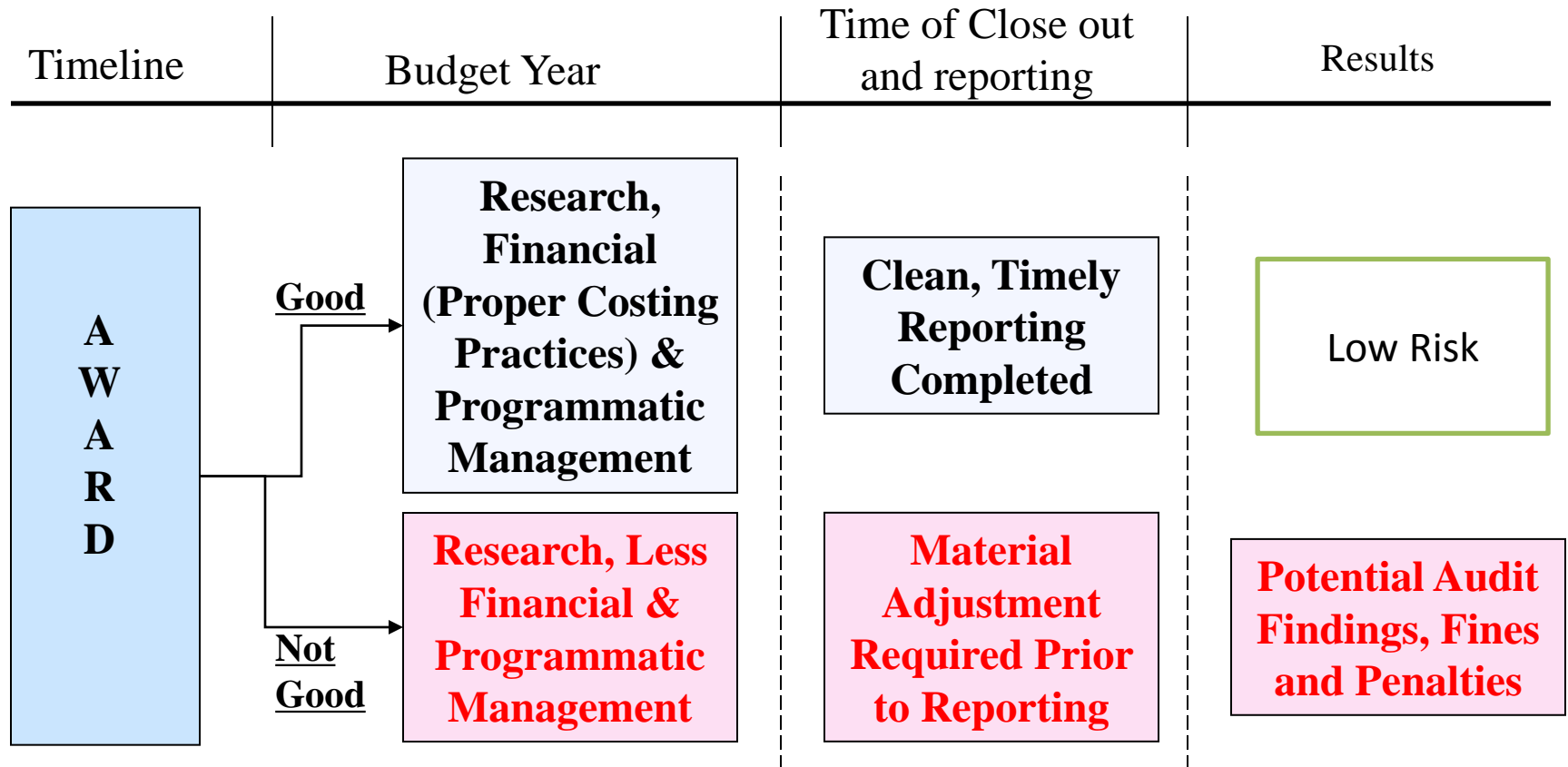
What is the difference between Direct and Indirect Costs?



What is a Cost Allocation Plan?

How does this impact my organization?

Grant Management Scenarios



Importance of Proper Cost Allocation

- Easier and cleaner grant management process
 - Monthly reports more reflective of actual position, less confusion
- Less need for rework adjustments
 - Adjustments create rework and clutter
 - Easier reporting as required
 - Less adjustments = cleaner, easier tracking and reporting
- Lower audit risk and exposure, ease of mind
 - Less adjustments = better grant management = lower audit risk

Total Costs = Direct + Indirect

- **Direct Costs**

Can be identified specifically with a particular final cost objective (i.e., a particular award, service or direct activity)

- **Indirect Costs**

Incurred for common or joint objectives and cannot be readily identified with a particular final cost objective

Direct vs. Indirect Costs

• DIRECT COSTS

Salaries, wages, fringe benefits , for positions such as:

- -principal investigator
- research associate
- laboratory technician
- MIS and database technician
- graduate research assistant

Animals and animal care

- animal purchases
- per diem charges

Computing costs (project specific)

- scientific mainframe computing (CPU time)
- programming expenses
- devices allocable to the performance of an award

• INDIRECT COSTS

Salary, wages, fringe benefits, for positions such as:

- Administrative and clerical
- travel coordinator
- finance and accounting

Animal Administration

- space & occupancy costs
- IACUC protocol services
- administrative processing of animal purchases
- hazardous waste disposal

Computing costs (General)

- Business Data Computing
- Computer networking costs (network cables, etc.)
- Local area network (LAN)/
-

Direct vs. Indirect Costs

- **DIRECT COSTS**

SCIENTIFIC COMPUTER SOFTWARE
(project specific)

Consultants

-external Non-DMC employees

Equipment (project dedicated)

- computer data storage drives
-scientific equipment (directly project related)

Equipment maintenance contracts

-for project dedicated equipment

Core / Shared Service Center Equipment

-charges using approved rate structure

Motor vehicle expense

- project-dedicated vehicles;
travel

- **INDIRECT COSTS**

General purpose software:

-word processing &
spreadsheet

Computer supplies:

-purchase of software
packages, such as
Word, Excel
- flash drives
- printer paper
-toner cartridge for printers

**SUNY-Owned Scientific Infrastructure /
Equipment**

Direct vs. Indirect Costs

- **DIRECT COSTS**

Participant costs

- stipends
- patient reimbursement
- dependency allowance
- travel
- other miscellaneous

Publications

- Printing,
- Binding, and
- copying service costs

Rental of space (away from University)

Shipping/overnight delivery services

- UPS, Federal Express, Priority Mail

Specialized facilities

- charges using approved rate structure

Subcontracts

Supplies

- laboratory
- educational
- instructional

- **INDIRECT COSTS**

Rental of SUNY Facility

- On-Campus facilities

Postage

- US domestic

Office supplies

- pens, pencils
- paper, tablets
- files, folders, binders
- printer or copier cartridges
- staplers, staples

Direct vs. Indirect Costs

- **DIRECT COSTS**

Telephone toll charges

- long distance and only when allocable to a specific project
- cellular phones required for field sites

Travel

- required to fulfill sponsored agreement requirements

Other

- equipment rentals
- reference books and materials not available in library
- malpractice insurance
- search service charges
- insurance expense for project-dedicated equipment

- **INDIRECT COSTS**

Local telephone charges

- basic line charge
- local calls

Memberships & subscriptions

Allowable Costs

To Be Allowable, Costs Must Meet the Following General Criteria:

- Be “**reasonable**” for the performance of the award
- Must provide direct benefit to grant
- Be “**allocable**” to the award under OMB A-21 cost principles
- **Conform** to any **limitations or exclusions** imposed by OMB A-21 cost principles or in the terms of award
- Be **consistent with policies and procedures** that apply **uniformly** to both federally-financed and other activities of the organization
- Be accorded **consistent treatment**
- Be determined in accordance with generally accepted accounting principles (**GAAP**)
- **Not** be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program
- Be adequately documented

Reasonable Costs

A Cost is Reasonable if it Meets the Following General Criteria:

- ***Pass prudent person test*** – it does not exceed that which would be incurred by a prudent person.
- ***Recognized as ordinary and necessary*** - for the operation of the organization or the performance of the award
- ***Constitutes sound business practice***, including arms length bargaining, and conforms to the restraints and requirements of Federal and State laws and regulations.
- ***Prudence*** - exercised in the circumstances considering responsibilities to the organization, its members, employees, clients, public, and Federal Government
- ***Does not significantly deviate*** - from the organization's **established policies and practices**

Typical Allowable Costs

- Allocable Salary and Fringe for staff specifically working on the project
- Animals and animal care
- Consultants
- Equipment
- Study participant costs
- Supplies
- Study related travel
- Additional examples can be found in the “Direct Costing Policy” September 2014

Cost Allocation Overview

- **What is a “Cost Objective”?**
 - A “Cost Objective” is a particular award, contract, grant, project, service, or other activity of an organization for which cost data are desired and for which provision is made to accumulate and measure the costs

Direct Allocation Method

Treat all costs as “Direct Costs” except General Administration and General Expenses

- Three basic categories:
 - General administration and general expenses
 - Fundraising
 - Other Direct Functions
- Prorate joint costs individually as “Direct Costs” to each category and to each award or other activity using an appropriate base for the cost being prorated
 - Relative benefits received
 - Reasonable criteria
 - Supported by current data
- Indirect Costs consist exclusively of general administration and general expenses
 - Compute indirect cost rate using Simplified Allocation Method

Typical Unallowable Direct Costs

- Administrative and clerical salaries (in most cases)
- General office supplies (in most cases)
- Alcoholic beverages
- Entertainment costs
- Food and beverages
- Air/Rail fares in excess of lowest available (except in special circumstances)
- Fundraising costs
- Lobbying costs

Unallowable Costing Practices

- Rotation or charges among sponsored agreement
- Assigning charges to grants with largest balances
- Charging budgeted amounts
- Charging in advance of actually incurring the expense
- Charging what would normally be an indirect expense such as administrative costs
- Parking costs until another grant is awarded
- Charging a colleagues expenses until their grant is awarded

Special Circumstances

- Under certain circumstances, sponsored programs may require administrative and clerical support, office supplies, postage, otherwise routine indirect costs charged as direct costs if they meet ALL of the following:
 - Cost can be readily identified with the project with a high degree of accuracy.
 - The costs are required by the project scope due to the project's special purchase or circumstance.
 - The items of cost are separately budgeted for, justified, or approved by the sponsoring agency.
 - These costs are not also recovered as indirect costs.
- Special purpose or circumstances related to award type:
 - Non-federal awards , such as those from city or state agencies for activities which require routine indirect costs to be charged directly in order to perform the intended function of the award.
 - Such as training grant, community outreach, planning grants, large complex projects, etc.

Avoiding Issues!

- Proper utilization of Awarded funds
 - Costs **must** be related to the project.
 - Costs **must** be allowable and allocable.
 - Costs **must** be reasonable.
 - The prudent person test
 - Costs **may not** be assigned based upon availability of funds, award expiration, or any other inappropriate, non-supportable method.
 - Costs may not be parked on one grant pending the receipt of another grant
 - You cannot accept costs from a colleague while they await the receipt of a grant
 - These costs are not allocable and do not benefit your grant – similar to parking
 - Costs may be related and allocated to multiple projects based upon:
 - Proportional benefit where possible.
 - Any reasonable, supportable basis.
 - Documentation should be maintained to support your basis in determining such allocations.
 - Documentation must be maintained for three years following the submission of the final financial report.
 - Never charged budgeted amount...must always be actual incurred costs
 - Never assign costs to a grant until they are actually used on the grant

What Happens During An Audit?

- During an A-133 audit, samples of transactions are selected to determine if expenditures and procedures were appropriate
 - e.g. purchase of equipment for use on a project.
- Auditors look for compliance with general and specific government audit requirements, covering both financial and non-financial factors such as:
 - Scope of work,
 - Efficiency with which resources are used,
 - Money spent in compliance with budget

What Happens During An Audit?

(Cont'd)

- The auditor must also test internal control procedures making sure that adequate policies and procedures are in place for complying with federal requirements.
- Principal Investigators and Project Managers are responsible for ensuring compliance with policies and procedures.

What Are the Auditors Looking For?

- Direct attribution must be established and demonstrated through supporting documentation
 - (linkage between cost and purpose of the project)
- A readily identifiable causal-beneficial relationship must exist between costs and the project
 - (e.g. computer purchases for a grant to perform statistical analysis.)

Audit Testing

- Auditors test the organization's internal controls.
- Internal control means a process instituted by an organization's management and other personnel, designed to provide reasonable assurance for:
 - Effectiveness and efficiency of operations;
 - Reliability of financial reporting; and
 - Compliance with applicable laws and regulations

Compliance Check!

Questions to consider:

- Have I lived up to my fiscal stewardship responsibilities through diligent oversight of my sponsored research?
- How would this transaction be perceived if it were reported in the newspaper?
- If you see, hear or even suspect an issue of non-compliance, please reach out to the Office of Research Administration or the Office of Compliance.

Contacts

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