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A guide for sponsored project expenditures: a primer on direct & indirect costs

Office of Research Administration and Finance, Northeastern University

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A GUIDE FOR SPONSORED PROJECT EXPENDITURES

A Primer On Direct & Indirect



Northeastern



The Governing Principle

The basic principle that governs expending funds from sponsored projects is that costs charged must be allocable, allowable, reasonable and necessary, and treated consistently.



Allocable Costs

- A cost is *allocable* to a particular project when it has a direct benefit and can be directly attributable to the project or the activity being performed.
- For example, an investigator purchases a piece of equipment to perform work on one specific sponsored project. The equipment is allocable to that project as a direct cost.
- The investigator also purchases a printer for his/her office which is used for all of his department activities. Including teaching This expense is not directly attributable to any one sponsored project and is therefore not allocable and may not be charged as a direct cost to the project.



Allowable Costs

- A cost must be allowed by University policy, sponsor policies, and OMB Circular A-21.
- For example, an investigator has a technician working on the project. This is an allowable direct cost of the sponsored project.
- The investigator takes the technician out to lunch and discusses experiments related to the project during lunch. Meal expenses are not allowable under OMB Circular A-21 (Section J.17). Therefore, this is an unallowable cost and may not be charged to the project.



Costs Must Be Reasonable and Necessary

- A cost must be *reasonable and necessary* for the performance of the project.
- For example, an investigator purchases lab supplies that are necessary to perform experiments related to the project. The supplies are reasonable and necessary to the performance of the project and may be charged to the project as direct costs.
- At the same time, the investigator also purchases a piece of equipment that is necessary for teaching undergraduates and although it is not needed for the current project, it may be needed for an new project. This equipment is not reasonable and necessary for the performance of the current project and may not be charged to the project.



Consistency Is Important

- Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs
- This means that where we treat a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs for all university activities.



Distinguishing Between Direct and Indirect Costs

- *Direct Costs* are those expenditures that can be identified specifically with a particular sponsored project..
- *Facilities and Administrative (Indirect) Costs* are those expenditures that are incurred for a common or joint purpose and therefore cannot be identified readily and specifically with a particular sponsored project.



Costs Must Be Treated Consistently

- Costs incurred for the same purpose, in like circumstances, must be *consistently treated* as either direct costs or indirect costs only. Otherwise, the University would risk double charging the government once by directly charging a cost to a sponsored project and again by including the same [type of] cost in the indirect rate charged to that sponsored project.



Examples of Direct Costs

- Salaries and fringe benefits of laboratory personnel specifically working on the project
- Project-related laboratory supplies and scientific equipment
- Project related software
- Project related travel



Examples of Indirect Costs

- Investigator time spent on writing proposals.
- Administrative and clerical time.
- General purpose laboratory equipment and software.
- General purpose desktop and notebook computers.
- Space costs.
- General purpose office supplies.
- Utility costs
- Subscriptions, dues and memberships.



Unlike Circumstances

- In certain circumstances, expenditures normally charged as indirect costs may be charged to a project as direct costs. Additional documentation is required to show the unlike circumstances that justify this expense as a direct cost.
- For example, large complex projects that involve extensive data accumulation and management or population surveys may require administrative expenses beyond those normally needed for most projects. Generally, the *special need* must be justified in the proposal budget and approved by the sponsor prior to the award.



Cost Matrix-Examples

Normally Direct Costs	Normally Indirect Costs
Salaries, wages, fringe benefits, such as: investigator, research assistant or associate, scientist, technician, post doc, graduate research assistant	Salaries, wages, fringe benefits of department administrators secretaries, clerks
Express service for overnight, federal express, Priority Mail, UPS, freight, delivery when needed to transport project material or report in a non-routine manner	Express service for routine delivery of grant proposals
Postage for mailing a large quantity of questionnaires, research surveys to accomplish project goals	Postage for routine sponsored project correspondence
Printing to produce bound manuals or print project-related manuscripts and large reports	Routine printing, reproduction, photocopying
	Organizational memberships
	Books and subscriptions
Scientific computer software and computers used solely for the project	General purpose computer software and supplies, such as word processing programs, toner cartridges and paper.
	General office supplies, paper, pencils, pens, transparencies, tablets, binders, etc.
Long distance telephone charges and project-dedicated field work phones	Basic telephone line charges, pagers, local calls, voice mail, cellular phones unless project-related field work phone



Unallowable Costs

- Entertainment
- Meals not associated with travel
- Beer, wine and spirits
- Costs associated with obtaining grant funding, such as lobbying
- Gifts, rewards and promotional activity



Direct Costing Practices That Are Unacceptable Include:

- Rotating charges without establishing the direct benefit to each project
- Assigning costs to the project with the largest budget or available balance
- Charging the budgeted amount rather than an actual usage amount
- Describing a cost as something other than what it is



Financial Management of Sponsored Projects is the Responsibility of:

- The Principal Investigator
- The Department and College Administrator
- The Department Chair and Dean
- The University



It is Important to Monitor Expenditures

- Periodically compare actual expenses to budgeted expenses
- Review expenses to be sure they are accurate, reasonable and allowable
- Correct mischarges in a timely manner using cost transfers
- Obtain prior approvals when required
- Monitor subrecipient costs



Tracking Budgeted vs. Actual Costs

- Actual expenses should be compared to budgeted expenses at least monthly to ensure:
 - ✓ Expenditures are reflective of actual work performed and the rate at which funds are being expended (“burn rate”) is appropriate.
 - ✓ You have not spent more in total funds on the project than was awarded.
 - ✓ Total expenditures for any cost category have not been exceeded if restricted on the notice of grant award.



Assuring Accurate Charges

- Actual expenses should be reviewed at least monthly to ensure they are:
 - ✓ Accurate
 - ✓ Reasonable
 - ✓ Allocable
 - ✓ Allowable
 - ✓ Consistently applied



Fixing Errors in Expenditures

- Cost transfers can be used to correct errors in expenditures, and remove unreasonable, unallocable, unallowable or inconsistent charges from the project.
- Cost transfers raise audit flags, require additional scrutiny, and double the work.
- It is necessary to document the reason for the error as well as the reason why the charge is appropriate for the project.
- Make the correction in a timely manner.



Costing Policy

- NU's Costing Policy is located at:
http://www.research.neu.edu/policies/documents/costing_policy_04172009.pdf