Procedure: Direct and Indirect Costs

Authority for Procedure granted by UWG #2014, Research and Sponsored Projects

The consistent treatment of Direct and Indirect Costs on a sponsored project directly affects the Indirect Cost Rate (ICR) proposal calculation prepared for or by the University of West Georgia (UWG). Documented guidance is essential for the accounting treatment of project-related costs. In order to ensure consistent treatment of Direct and Indirect Costs incurred by sponsored projects, each sponsored project administered by the Office of Research and Sponsored Projects (ORSP) shall adhere to these procedures.

This procedure applies to all individuals submitting a UWG sponsored grant or project.

The Chief Academic Affairs Officer, pursuant to the authority of UWG PL 2014, Research and Sponsored Projects establishes the following procedures.

A. Indirect Cost:

Indirect Costs include the salary and related expenses of individuals working in sponsored projects, post-award related activities (including accounting and purchasing functions), personnel needed in support of the sponsored projects, rent, depreciation and utilities. **Indirect Costs are not normally charged directly to a federal award.** Indirect Costs are generally charged to federal awards through the organization developed and approved Indirect Cost rate (ICR).

The Principle Investigator (PI) must coordinate with UWG-ORSP to ensure unallowable costs are not included in the Indirect Cost pools; unallowable costs may need to be included in the Direct Cost base if allowed by the funding agency or by the terms and conditions of the award.

B. Indirect Cost spending plan

1. If the PI provides a spend-down schedule, the PI will be allowed to spend the allocated Indirect Costs for allowable items within one year from the time the Indirect Cost is allocated in the PI’s chart-string.

2. After the timetable of the spend-down schedule: Unspent Indirect Cost funds (if less than 10% of original allocation) may be reallocated for one more year by written request, after which the unspent Indirect Cost funds will be transferred to the Department Chairs’ Indirect Cost chart-string. This request must be filed three months before the end of the spend-down schedule.

3. Unspent Indirect Cost funds from a PI separating from UWG will be transferred to the new PI. If there is not a new PI, the funds will be transferred to the Department Chairs’ Indirect Cost chart-string.

B. Indirect Cost Rate (ICR) and Negotiated Indirect Cost Rate Agreement (NICRA)

In order to recover Indirect Costs related to federal awards, most organizations must negotiate an ICR with the federal agency that provides the preponderance of funding (or Health and Human Services in the case of colleges and universities). UWG has NICRA.
C. Allowable and Unallowable Costs (including Direct, Indirect, and matching)

Allowable costs

To be allowable (see 2 CFR 200.403) under federal awards, costs must be reasonable, allocable, and necessary to the project, and they must also comply with the funding statute and agency requirements. To meet federal standards for allowability, a cost charged to an award must be:

1. Allocable to the award under the provisions of the applicable cost principles.
2. Necessary and reasonable for proper and efficient performance and administration of the grant or cooperative agreement.
3. Treated consistently as a Direct or Indirect Cost.
4. Determined in accordance with the Generally Accepted Accounting Principles, except as otherwise stipulated in the applicable cost principles.

Unallowable costs

There are other costs, categorized as unallowable costs, that will not be reimbursed. If a cost cannot meet the criteria of reasonableness, allowability, allocability, and consistency, it is unallowable. Non-federal entities such as UWG must not use award or match funding for unallowable costs. Also, any costs considered inappropriate by the awarding agency are within the category of unallowable costs. See 2 CFR 200.31 (disallowed costs), which states, “Disallowed costs means those charges to a federal award that the federal awarding agency or pass-through entity determines to be unallowable, in accordance with the applicable federal statutes, regulations, or the terms and conditions of the federal award.”

Common unallowable expenses include entertainment, alcohol, company parties and certain travel expenses. These are defined in Federal Acquisition Regulation (FAR) 31. Your contract also may exclude certain other expenses. In many cases, these represent legitimate business expenses.

Simplified tables of categories of allowable and unallowable costs

<table>
<thead>
<tr>
<th>Allowable</th>
<th>Unallowable</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Audit services</td>
<td>▶ Advertising</td>
</tr>
<tr>
<td>▶ Budgeting costs</td>
<td>▶ Alcoholic beverages</td>
</tr>
<tr>
<td>▶ Communications</td>
<td>▶ Bad debt</td>
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<tr>
<td>▶ Conference grant costs</td>
<td>▶ Certain travel costs (e.g., flying first class)</td>
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<tr>
<td>▶ Consulting services</td>
<td>▶ Entertainment costs</td>
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<tr>
<td>▶ Equipment and other</td>
<td>▶ Fines and penalties</td>
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<tr>
<td>▶ Maintenance and repair costs</td>
<td>▶ Fundraising costs</td>
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<td>▶ Meals</td>
<td>▶ Interest</td>
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<tr>
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<td>▶ Lobbying costs</td>
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</table>
Definitions

Budget Contact – Typically, the administrative assistant within the PI’s department is responsible for preparing financial documents requested by the PI for submission and approval by the ORSP.

Direct Costs – Expenses that are a direct result of a research project and can be allocated without doubt to that project.

Indirect Costs – Allowable Indirect Costs are those costs which are not readily identifiable with a particular cost objective (e.g., direct organizational activity or project), but nevertheless are necessary for the general operation of an organization.

Post Award Specialist – Grants accountant or financial point of contact within the ORSP.

Principal Investigator (PI) – In the context of sponsored projects, the principal investigator is the person who takes responsibility for completion of a funded project. Some agencies use the term Project Director (PD), which has the same definition as described above.

Guidelines/Related material


3. [2 CFR 200, Subpart E; OMB Circulars A-21](https://www.ecfr.gov/cgi-bin/text-idx?node=2:1.1.2.2.1.5&rgn=div6) Additional guidance on whether a cost is allowable or unallowable