



## Charging Direct and Indirect (F&A) Costs Policy

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On December 26, 2014, the federal government implemented new guidelines for the management of grants, referred to as the Uniform Guidance (2 CFR §200), that replaced OMB Circulars A-21, A-110 and A-133. Awards issued prior to this date will continue to be managed under OMB Circulars. This document is applicable to grants awarded after December 26, 2014 and references the Uniform Guidance.

### BACKGROUND

This policy defines how expenses will be budgeted and charged to sponsored projects.

As a recipient of federal awards, San Francisco State University (SF State) is required to meet compliance standards as outlined by external regulations, including the federal guidelines in the Uniform Guidance (2 CFR §200). All charges to sponsored research must be consistent with criteria established in the Charging Direct and Indirect (F&A) Costs Procedures, other applicable SF State procedures, and sponsor regulations. It is also important that charges are properly documented. Regulations that set rules for direct and indirect (F&A) charging include:

*2 CFR §200.403, Factors affecting allowability of costs, states:*

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- A. Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- B. Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- C. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- D. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- E. Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- F. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also §200.306 Cost sharing or matching paragraph (b).
- G. Be adequately documented. See also §200.300 Statutory and national policy requirements through §200.309 Period of Performance of this part.

Appendix III to Part 200 - Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Institutions of Higher Education (IHEs) defines Facilities and Administrative (F&A) costs, commonly referred to as Indirect Costs (IDC) or overhead, as:

***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.***

See subsection B.1, *Definition of Facilities and Administration*, for a discussion of the components of indirect (F&A) costs.

NIH Grants Policy Statement (GPS) 11/2016, Section 7.3, describes the difference between direct and indirect (F&A) costs as follows:

A direct cost is any cost that can be specifically identified with a particular project, program, or activity or that can be directly assigned to such activities relatively easily and with a high degree of accuracy. Direct costs include, but are not limited to, salaries, travel, equipment, and supplies directly benefiting the grant-supported project or activity. Most organizations also incur costs for common or joint objectives that, therefore, cannot be readily identified with an individual project, program, or organizational activity. Facilities operation and maintenance costs, depreciation, and administrative expenses are examples of costs that usually are treated as Facilities and Administrative ("F&A"/indirect costs). The organization is responsible for presenting costs consistently and must not include costs associated with its F&A rate as direct costs.

**All costs charged to a sponsored project must comply with any terms and conditions or restrictions of the Notice of Grant Award (NGA) or other award/contract documentation.**

## **DIRECT COSTS**

### **A. Personnel Expenses Subject to IDC (F&A) Rates**

#### **1. Salaries, Wages, and Fringe Benefits**

- a. Salaries, wages, and fringe benefits for non-administrative personnel (Principal Investigators, co-investigators, research staff, etc.) are allowable as direct charges on sponsored projects when the charges reflect actual work performed and directly benefit the sponsored project.
- b. Salaries, wages, and fringe benefits for administrative personnel are normally treated as indirect (F&A) costs. Per Subsection E, 2 CFR §200.413, direct charging administrative and clerical salaries may be appropriate only if all of the following conditions are met:
  - 1) Administrative or clerical salaries are integral to the project or activity;
  - 2) Individuals involved can be specifically identified with the project or activity;
  - 3) Such costs are explicitly included in the budget or have prior written approval of the awarding agency; and
  - 4) The costs are not also recovered as indirect (F&A) costs.
- c. Salary, wage, and fringe benefit charges must be consistent with all other applicable SF State hiring procedures and employment practices.
- d. Costs associated with providing fringe benefits (FICA, Health Insurance, CALPERS Benefits, Workers' Compensation Insurance, State Unemployment Tax, etc.) to grant-funded personnel are charged on an actual basis to the sponsored project.

## **2. Independent Contractors/Special Consultants**

- a. Even if approved in the awarded budget, the Independent Contractor/Special Consultant must meet SF State's hiring criteria. SF State's Human Resources will make the determination as to whether an Independent Contractor meets the necessary requirements and can be hired.

## **B. Non-Personnel Expenses Subject to IDC (F&A) Rates**

### **1. Supplies**

- a. Supplies directly related to the project, such as technical or scientific supplies, are allowable if they are purchased to directly benefit the project.
- b. Office supplies are only allowable as direct charges to a sponsored project if they are necessary to complete the project and the project requires an above normal use of such supplies. Otherwise, general office supplies are typically unallowable as direct charges, and are instead covered by the University's F&A rate.

### **2. Travel**

- a. Travel costs, including transportation, lodging, and per diem rates are allowable. These expenditures must meet SF State/CSU Travel Policies and Procedures.
- b. Additional travel guidelines or regulations listed in the sponsored project award document must be followed. Sponsor guidelines supersede SF State guidelines in these cases.

### **3. Meals and Entertainment**

- a. SF State Hospitality policy regarding meals and entertainment expenses apply to all sponsored projects.
- b. Many sponsors have more specific regulations than SF State. Sponsor guidelines supersede SF State guidelines in these cases.
- c. The following items are generally not allowable as Meal and Entertainment expenses on sponsored projects:
  - i. Alcohol
  - ii. Magazines/Newspapers
  - iii. Movies
  - iv. Flowers
  - v. Gifts and Souvenirs
  - vi. Concerts/Events
  - vii. Balloons
  - viii. Spa Treatments

### **4. Animal Care**

Animal Care costs included in the awarded budget are allowable direct charges to a sponsored project, as defined by the sponsor guidelines.

- a. If Animal Care costs exceed the budgeted amount or were not included in the awarded budget, refer to the sponsor guidelines regarding the allowability of these costs.

## 5. Equipment

- a. *Capital Equipment* is defined as items with an acquisition cost of \$5,000 or more, and may also include consolidated equipment with a total value of \$5,000 or more. Typically, capitalized equipment that meets this definition is waived from indirect (F&A) costs, based on SF State's Federally-negotiated F&A Rate Agreement.
- b. Equipment that is used specifically for the benefit of a sponsored project may be charged directly to the sponsored project, depending on the sponsor's guidelines.

## 6. Subcontracts/Subawards (Consortium/Contractual Costs)

- a. Subcontract/subaward agreements specified in the awarded budget are allowable direct charges to a sponsored project. If a subcontract/subaward is not in the awarded budget, refer to the sponsor for their specific requirements.
- b. Only the first \$25,000 of a given Subcontract/Subaward agreement is subject to Indirect (F&A) Costs.

## C. Non-Personnel Expenses Exempt from IDC (F&A) Rates

### 1. Participant Support Costs

- a. Per sponsor guidelines, Participant Support Costs are allowable Direct Charges to a sponsored project.

### 2. Stipends

- a. Stipend costs are allowable direct charges to a project at the rate defined in the approved budget and within sponsor guidelines.

### 3. Tuition

- a. Student tuition costs are allowable direct charges to a project at the rate defined in the approved budget and within sponsor guidelines. Tuition costs are exempt from F&A costs.

## INDIRECT COSTS OR FACILITIES AND ADMINISTRATIVE COSTS

### A. Examples of IDC (F&A) Costs

1. Utilities
2. Salaries, wages, and fringe benefits for clerical and administrative staff
3. General purpose laptop computers and other highly desirable personal electronic devices that cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity (e.g., iPads, Microsoft Surface Pro, other tablets, etc.)
4. Office supplies (basic supplies)
5. Subscriptions
6. Library books
7. Periodicals
8. Memberships
9. Office and general purpose equipment (office furniture, general purpose lab equipment, etc.)
10. Photocopying
11. Postage

12. Repair and maintenance (e.g., equipment)
13. Telephone/cell phone, internet costs (e.g., monthly bills)
14. Proposal development costs

#### **B. Exceptions: Charging Indirect/Facilities and Administrative (F&A)-Type Costs as Direct Costs**

1. Justification for these types of charges must be well documented by the person incurring the cost. Some examples of projects in which the direct charging of costs normally considered F&A costs is appropriate include:
  - a. Large, complex programs, such as research centers, institutes, and other sponsored agreements that entail assembling and managing teams of investigators (e.g., as defined by subsection E of 2 CFR §200).
  - b. Projects that require preparation and production of manuals, large reports, or surveys to meet the objectives of a specific sponsored project.
  - c. Projects designated as “off-campus” which are charged the off-campus F&A Cost rate. For example, rent and utilities may be directly charged to off-campus projects.

#### **C. Specific Examples of Exceptions**

1. **Postage/Photocopies:** Allowable if a direct benefit to the project can be documented (e.g. if a survey is being conducted as part of a project, copying and postage are allowable direct charges).
2. **Office Supplies:** Allowable if it can be documented that there is a need for a greater amount of supplies for a project than is typically available (e.g. external media storage devices to store data).
3. **Meetings and Conferences:** Costs of meetings and conferences are allowable if they are specifically provided for in the awarded budget, and the activity directly benefits the project. Items such as flowers, balloons, gifts, etc. are unallowable.
4. **Telecommunications:** Telecommunications costs associated with a specific sponsored project can be direct charged (e.g. long distance charges can be direct charged to a sponsored project if the call benefits the project directly), but the appropriateness of these charges must be documented in all instances. If a telephone has been installed for the sole use of a particular sponsored program activity (e.g. conducting a phone survey is an objective of the project) and will be removed when the project terminates, the related monthly service, voicemail, and non-toll expenses can be charged to the sponsored project. Cell phones, internet service, smart phones, and home Internet Service Provider charges are only allowable if explicit approval from the sponsor is received, programmatic necessity can be documented, and the services are used exclusively for the sponsored project(s). No other telecommunication expenses should be direct charged as to a sponsored project.

#### **D. Determining Allowable and Unallowable Costs**

1. Allowable costs must meet the terms and conditions of the award and a test of reasonableness.
2. Purchasing items to “spend down” available funds is prohibited by federal regulation. All costs charged to a project must specifically benefit the project they are charged.
3. Large purchases made towards the end of a budget period, where it is not reasonable to expect the product(s) purchased can be used by the end date of the project, are unallowable (e.g. a large amount of general lab supplies purchased during the last week of an award).
4. It is the responsibility of each Principal Investigator to monitor the award budget and ensure that purchases are made in a timely manner.

## UNACCEPTABLE DIRECT CHARGING PRACTICES

### A. Inappropriate Practices for Charging Direct Costs to Sponsored Projects

1. Shifting costs to other sponsored projects in order to meet budget or funding deficiencies.
2. Shifting costs to other sponsored projects to avoid sponsor restrictions.
3. Assigning costs to projects in order to quickly spend down a remaining balance, such as:
  - a. Charging large equipment expenditures at the end of a project.
  - b. Increasing salary expenses on a project that are not consistent with actual effort expended.
4. Charging costs incurred for multiple projects or functions to several sponsored projects when there is difficulty determining the relative benefit of the cost to each sponsored project (see Charging Costs to Multiple Projects below).
5. Charging an expense exclusively to one award when the expense was used to support other activities (see Charging Costs to Multiple Projects below).
6. Rotating charges among projects without establishing that the rotation schedule accurately reflects the relative benefit to each project during that specified period.
7. Charging only the budgeted amount (in contrast to charging actual costs).
8. Assigning charges to an award before the cost is incurred.
9. Assigning personnel charges that are part of the normal administrative support for awards (proposal preparation, accounting, payroll, etc.).

### B. Charging Costs to Multiple Projects

1. Some direct costs benefit multiple projects. Examples include copying, publishing costs, bulk lab supplies, and office supplies. These costs should be allocated to projects in proportion to the benefit. The *NIH Grants Policy Statement* states:

When salaries or other activities are supported by two or more sources, issues arise as to how the direct costs should be allocated among the sources of support. In general, a cost that benefits two or more projects or activities in proportions that can be determined without undue effort or cost should be allocated to the projects based on the proportional benefit. A cost that benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved may be allocated or transferred to the benefiting projects on any reasonable basis.

2. The method for allocating direct costs to multiple projects must be identified in advance of the allocation, and must be documented. Documentation to split costs for purchase requisitions should be included in departmental records. Documentation for allocation of special check requests through accounts payable should be documented in the comments sections of the request. The allocation method must be consistently applied to all sponsored projects in a defined group (e.g. department, PI, etc.). Switching between methods for convenience is not acceptable.
3. The following are charges that may be allocated to multiple projects:
  - a. Lab personnel working on each project, as certified on their Time and Effort Reports.
  - b. Number of activities performed (e.g., project A has 20 experiments and project B has 40 experiments, therefore 1/3 of the costs will be allocated to project A and 2/3 to project B).
  - c. Rates established by a service center or other lab that correlates to the cost being allocated (e.g. animal facility charges).
4. Cost methods should not be allocated to multiple projects based on:
  - a. Budget over-expenditures
  - b. Expending remaining unspent funds

- c. Rotating costs between projects
- d. Pro-rated square footage

### C. Indirect Costs or Facilities and Administrative (F&A) Rate

1. SF State will not “waive” (accept a lower amount than the federally-negotiated rate) F&A unless required by the sponsor. The lower rate must be in writing in a publicly-viewable document. F&A costs are paid as a percent of direct expenditures. Approximately every five years, SF State negotiates an F&A cost agreement with their cognizant government agency (Department of Health and Human Services). The SF State F&A cost rate states the rate of F&A costs that the government will reimburse to SF State related to activities on a sponsored program.
  - a. **Federal:** The SF State F&A cost rate should be used except for those programs that publish a lower rate. Additionally, depending on where the sponsored activity will take place (on-campus or off-campus) or the type of activity (basic research, instruction, or other sponsored activities), different rates may apply.
  - b. **Non-Federal:** Many non-federal sponsors, such as foundations, limit the F&A rate they will pay. In these cases, it is SF State procedure to charge the maximum amount allowed by the sponsor, based on the sponsor’s published rates.
  - c. **Subcontracts/Subawards:** It is important to determine the original source of funding on any incoming or outgoing subaward/subcontract agreement. Based on this determination, the appropriate criteria listed above should be used to determine the F&A rate.

### RELATED DOCUMENTS

- [Code of Federal Regulations Title 2 Subtitle A Chapter II Part 200](#)
- [NIH Grants Policy Statement](#)
- [Indirect Cost Negotiation Agreement](#)
- [Facilities and Administrative Costs Policy and Procedure](#)
- [Charging Direct & Indirect \(F&A\) Costs Procedure](#)