



New Jersey Institute of Technology
University Policies and Procedures

Number: 13-03
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Subject: GRANTS AND CONTRACTS - DIRECT COST

A. OVERVIEW

This policy establishes that all costs incurred for the same purposes and in like circumstances must be consistently identified as either direct cost only or indirect cost only.

In order to maintain consistency, this policy is applicable to all grants and contracts regardless of the source of funding.

B. PURPOSE

The purpose of this policy is to comply with the regulatory standards set forth in OMB Circular A-21, OMB Circular A-110, and OMB Circular A-133, regarding direct costs.

C. DEFINITIONS

OMB Circular A-21	Principles for determining costs applicable to grants, contracts, and other agreements with educational institutions. http://www.whitehouse.gov/OMB/circulars_a021_2004/
OMB Circular A-110	Standards for obtaining consistency and uniformity among Federal agencies in the administration of grants to and agreements with institutions of higher education, hospitals, and other non-profit organizations. http://www.whitehouse.gov/omb/circulars/a110/a110.html
OMB Circular A-133	Standards for obtaining consistency and uniformity among Federal agencies for the audit of states, local governments, and nonprofit organizations expending Federal awards. http://www.whitehouse.gov/sites/default/files/omb/circulars/a133/a133.pdf
Allocable	A cost is allocable to a project if the goods or services involved are chargeable or assignable to such project in accordance with the relative benefits received by the project.

Allowable	A cost is allowable to a project if it: (1) is reasonable, (2) is allocable to the specific project, (3) is treated consistently in like circumstances, and (4) conforms to any limitations set forth in the sponsored agreement.
Institutional Consistency	Allocation of similar costs as either direct costs or indirect costs. Each type of cost may be allocated only once.
Modular Budget	Modular grant applications require direct cost funding in modules of \$25,000, for up to \$250,000 each year, for covered National Institute of Health activity codes. F&A costs for subcontracts are not included in determining the direct cost modular amount. The modules should be a reasonable estimate of allowable, allocable, and reasonable costs for the proposed project. In addition, F&A costs are allowable as part of the total cost amount requested.
PAF	Personnel Action Form
PI	Principal Investigator
Reasonable	A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amounts involved therefor, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.
SRA	Sponsored Research Administration

D. SPECIFIC REQUIREMENTS

1. **Direct Costs** can be identified specifically with a particular project or another institutional activity and can be assigned to activities relatively easily with a high degree of accuracy. In general, an expense may be charged to a project as a direct cost if it meets the following criteria:
 - a. The expense is budgeted as a direct cost and accepted by the sponsor; and
 - b. The expense is institutionally consistent; and
 - c. The expense is allocable, allowable and reasonable.
2. **Indirect Costs** are those expenses incurred for common or joint objectives that cannot be readily and specifically identified with a particular project. Costs that generally fall

into this category include general-purpose computers and office equipment, routine office supplies, telephone charges, postage, etc.

In certain cases, expenses normally categorized as indirect costs may be charged directly to the project. In these cases the following additional documentation is required:

- a. The project has a special need for the item or service that is justified in the grant/contract proposal.
- b. The cost can be specifically identified to the work conducted under the project.
- c. The cost is specified in the proposed budget of the sponsored agreement.
- d. The sponsoring agency accepts the cost as part of the project's direct cost budget.

For programs that only require a modular budget submission to the sponsoring agency, a detailed budget for the entire project must be submitted to SRA.

3. Proportional Benefit Rule – Definition and Application

Under some circumstances, a direct expense may benefit and may be specifically identifiable with two or more sponsored projects, or sponsored projects and other activities, in proportions that can be reasonably determined. In those cases, the cost should be allocated based on the proportional benefit to each project. If a cost benefits two or more activities in proportions that cannot be determined because of the interrelationship of the work involved, the costs may be allocated or transferred to the benefitted activities on any reasonable basis that is consistent with these guidelines.

When the proportional benefit rule is used, the required close linkage of the cost with a sponsored activity continues to apply. The criteria for allocation of costs to two or more projects are as follows:

- a. The costs in question should be specifically identifiable with the sponsored projects and other activities with a high degree of accuracy; and
- b. Documentation of this identification and the methodology used to assign amounts to the projects must be available.

4. For personnel costs that directly benefit two or more sponsored projects, the proportional benefit rule is applied when the PI authorizes the distribution of salaries and wages and associated fringe benefits across two or more sponsored projects.

- a. The PI should document his/her best judgment of the proportional benefit of the salaries and wages and associated fringe benefits to each project.

- b. The time and effort certification process should confirm that the distribution of actual salaries and wages reflects the appropriate proportional distribution of compensation.
- 5. For non-personnel costs** that directly benefit two or more sponsored projects, the proportional benefit rule can be used as long as:
- a. The costs in question qualify as direct costs under these guidelines; and
 - b. The costs pay for something that specifically benefits two or more sponsored projects; and
 - c. A proportional distribution of the costs can be reasonably documented.

6. Unallowable Costs

The charging of certain expenses to federally funded sponsored projects is expressly prohibited. Refer to University Policy 12-06 “Unallowable Cost”.

7. Unacceptable Direct Costing Practices

The following direct costing practices are unacceptable:

- a. Assigning costs that are part of normal administrative activities. (For example, charging salaries for departmental administration, faculty effort on proposal writing, etc.).
- b. Allocation of charges to a sponsored project without establishing the direct benefit to that project.
- c. Assigning charges to the sponsored project with the largest remaining budget balance.
- d. Assigning charges to a sponsored project on the basis of ability to pay.
- e. Charging budgeted amounts instead of the actual amounts incurred.
- f. Describing costs as something other than what they are. (e.g., describing office supplies as lab supplies.)
- g. Charging costs exclusively to a sponsored project when such costs are not charged to non-sponsored activities.

8. Compensation

The effort percentages in the project proposal should be used for initially charging salary costs to the project. However, adjustments should be made to the effort percentage and salary charge if use of the proposed effort percentage is inappropriate because of changes

in an individual's workload since submission of the proposal (e.g., the award of more grants than anticipated). If a change of 25 percent or more from the budgeted effort percentage occurs for a PI, co-PI or other key personnel, sponsoring agency notification and approval are required. (Note: this change is 25 percent of the budgeted effort percentage, not 25 percent of the individual's total effort. For example, a reduction from 40 percent to 30 percent would be a 25 percent reduction of the budgeted effort percentage).

All direct effort on sponsored agreements must be confirmed by effort reports. Adjustments to the salary charges must be made if actual effort differs materially from the effort shown on the effort report.

If a salary exceeds the sponsoring agency salary cap, the salary amount exceeding the cap is unallowable.

9. Equipment

Equipment means an article of nonexpendable tangible property. Special-purpose equipment, i.e., equipment that will be used only for research, medical, scientific or other technical activities, is allowable. General-purpose equipment means all other equipment, and is not allowable.

10. Office and Computer Supplies, Postage and Printing/Duplication

Office and computer supplies, postage, printing and duplication costs are not allowable as direct charges to sponsored projects. These costs may sometimes be charged directly, with the approval of the sponsoring agency, such as in projects that involve large mail surveys.

11. Travel

Travel is an allowable cost when directly attributable to specific work under a sponsored project. Refer to University Policy 12-08 "Travel and Business Expense".

12. Business Meetings and Conferences

Costs of meetings and conferences, whose primary purpose is the dissemination of technical information, can be directly charged to a sponsored project.

13. Meals

Meals are not allowable as a direct charge to sponsored projects unless approved by the sponsoring agency. Refer to University Policy 12-08 "Travel and Business Expense".

14. Entertainment

Costs incurred for social events and entertainment, such as meals, alcohol, lodging, rentals, transportation, and gratuities, are unallowable.

15. Consultants

External consulting costs are allowable only when the approved budget provides for them. Consulting agreements must be negotiated by SRA.

16. Maintenance and Repairs

Normal maintenance, repairs or upkeep of equipment that neither adds to the value of the property nor appreciably prolongs its intended life is not allowable as a direct cost to the project.

17. Service Centers

Service centers are departments or functional units that perform specific technical services primarily for the benefit of the University. Cost of services provided are allowable as direct costs to a sponsored project where such costs are required under the scope of the project. All usage must be accounted for and services must be charged to all users based on actual usage using uniform, non-discriminatory rates. The rates must be based on the actual direct costs of providing the services.

18. Telecommunication Charges

Normal telecommunication charges, fax charges, modem costs, cellular phones and other related costs, are not allowable as direct charges to sponsored projects. They may sometimes be charged, with the approval of the sponsoring agency, as direct costs in projects that involve large telephone surveys or field work or project related travel.

19. Membership Dues and Subscriptions

Individual membership dues and subscriptions are not allowable as direct charges to sponsored projects.

20. Proposal Preparation Costs

Costs of preparing proposals and applications for sponsor funding, including typing, copying, mailing, long distance telephone charges, etc., are not allowable.

21. Remodeling/Capital Improvements

Construction, remodeling and alteration costs incurred specifically for a sponsored project are not allowable as direct costs unless approved by the sponsoring agency.

REVIEW:

Holly C. Stein 1/11/13
General Counsel Date

[Signature] 1/23/13
President Date

APPROVAL:

Acting Holly C. Stein 1/11/13
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