

UAB DIRECT AND INDIRECT COSTS POLICY AND PROCEDURES

INTRODUCTION

University of Alabama at Birmingham (“UAB”) management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs. Code of Federal Regulations (“CFR”) Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) prescribes the requirement to adhere to in order to be compliant.

This policy provides guidance to UAB staff to assure compliance with the 2 CFR Subpart E – Cost Principles, particularly as it relates to 2 CFR Part 200.413 – Direct costs and 2 CFR Part 200.413 – Indirect (F&A) costs.

APPLICABILITY

The direct and indirect cost policy applies to all Federal and Non-federal sponsored agreements. Each center, department, lab, etc. in which UAB sponsored activity occurs must follow the costing practices described herein. Any proposed exceptions to this policy must be documented by the unit using the form linked below.

- [University Approval for Items Normally Charged as FA Indirect Costs to be charged as Direct Costs.pdf](#)

DEFINITIONS

Classification of Costs

There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards. (2 CFR Part 200.412)

Direct Costs

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, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs. (2 CFR Part 200.413a). It is important that where UAB treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances must be treated as direct costs of all activities of the university.

Indirect Costs (Facilities and Administrative Costs)

Indirect (F&A) costs are 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. (2 CFR Part 200.56). These costs are assigned to activities that are classified by UAB as indirect activities.

For major Institutions of Higher Education (IHE) and major nonprofit organizations, indirect (F&A) costs must be classified within two broad categories: “Facilities” and “Administration.” “Facilities” is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. “Administration” is defined as general administration and general expenses such as the director's office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of “Facilities” (including cross allocations from other pools, where applicable). (2 CFR Part 200.414a)

CONSISTENT TREATMENT OF COST

Consistent treatment of costs is a basic cost accounting principle and is within 2 CFR Part 200.412 – Classification of Costs to assure that the same type of costs are not charged to Federally sponsored agreements both as direct costs and as indirect costs. This concept is reinforced and emphasized in a Cost Accounting Standard (referred to as “CAS 502”) that educational institutions are required to follow.

Consistency, in this context, means that costs incurred for the same purpose, in like circumstances, must be treated uniformly as either direct costs or as indirect costs. Thus, since certain types of costs, such as the salaries of administrative/clerical staff, office supplies, and postage are normally treated as indirect costs, the same types of costs cannot be charged directly to sponsored agreements, unless the circumstances related to a particular project are clearly different from the normal operations of the institution. For example, although postage is normally treated as an indirect cost, a particular project may have a special need for postage because of the mailing of hundreds of survey questionnaires. In this case, it would be appropriate to charge the project directly for the postage to mail the questionnaires, since this would constitute "unlike circumstances" compared to routine postage requirements.

POLICIES AND PROCEDURES

DIRECT COST POLICY

The primary direct cost functions of UAB are Instruction, Organized Research, Other Sponsored Activities (OSA), Service Centers, and Other Institutional Activities (OIA). Costs incurred in the conduct of these activities, such as salaries and wages, fringe benefits, materials and supplies, and other operating expenses, are treated as direct costs and identified through specific allocation to the benefiting projects and activities. UAB will develop guidelines defining these types of costs which the institution has identified as normally being direct costs.

If a direct cost benefits two or more sponsored projects, 2 CFR Part 200.405(d) provides standards for its allocation across those sponsored projects. Direct charges to a sponsored project should support the project's purpose and activities, and should be necessary to meet the project's specific scientific and technical requirements. Such charges cannot be assigned arbitrarily, or for the purpose of simplified budget management. In addition, direct charges to a sponsored project are expected to adhere to the sponsor's restrictions in the Notice of Award and budget and to support the sponsor's programmatic intent.

INDIRECT COST POLICY

Under Uniform Guidance, costs incurred in support of routine administrative activities of the university are considered indirect (F&A) costs and should not normally be charged to sponsored projects. UAB guidelines will also specify the types of UAB costs (such as administrative costs) which are normally indirect. Even a cost which is identified as "normally indirect" may be charged directly to sponsored agreements when it is required by the project scope and it is formally established that it is incurred for a different purpose or in unlike circumstances than similar types of indirect costs. The guidelines will also give examples of those factors which UAB considers to be relevant in justifying that a given project's activities constitute special purposes or circumstances for purposes of allowing direct charging of costs which are normally indirect.

ADMINISTRATIVE AND CLERICAL SALARIES AND FRINGE BENEFITS

The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. To directly charge salaries related to these types of activities to a project, the PI is responsible for justifying how the item will directly benefit the project and ensuring that all of the following apply:

- (1) Administrative or clerical services are integral to a project or activity;
 - The requirement that the cost is "integral" means the services are essential, vital, or fundamental to the project or activity
- (2) Individuals involved can be specifically identified with the project or activity;
 - The individuals have responsibilities specifically related to the work of the project and the effort devoted to the project is documented and certified in the University's payroll system.
- (3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency;
 - The title(s), percent of effort, and salary amount(s) for the administrative/clerical position(s) are included in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging of the services are justified in the proposal. A designated official in the academic unit will review

the proposal for appropriateness of the administrative/clerical salaries. Department head approval on the University's proposal routing sheet will serve as documentation that this review has taken place.

- The sponsoring agency accepts the cost as part of the project's direct cost budget (i.e., does not specifically disapprove the cost in the award or other notification to the University). For programs that do not require submission of a project budget to the sponsoring agency, e.g., NIH modular grants, the cost must be justified and approved by a designated official in the academic unit. A copy of the approved justification should be forwarded to Office of Sponsored Programs with the proposal.
- If the costs of clerical and administrative salaries were not explicitly included in the budget or budget justification, re-budgeting for those costs will require prior approval of the awarding agency (please see specific award document or contact Office of Sponsored Programs for re-budgeting requirements). The re-budgeting request must be in writing and the justification must include the same information that would have been provided in the proposed project budget and must explain why the salary was not in the original budget. A designated official in the academic unit will approve these requests, if the designated official is satisfied that the costs are appropriate and that the sponsoring agency would have approved the cost had it been in the original budget. The approval should be obtained before the costs are charged to the project. NIH has waived this requirement unless the change results in a change of scope.

(4) The costs are not also recovered as indirect costs. (2 CFR Part 200.413)

OTHER ADMINISTRATIVE AND CLERICAL ACTIVITIES

For other administrative activities that are not normally allowed such as travel and meeting arrangements, travel reimbursements, procurement, financial tracking/management, payroll or human resources, etc., the justification must indicate that the project will require an **unusual type of volume of administrative tasks**. Examples include:

- Large, complex programs such as General Clinical Research Centers, Primate Centers, Program Projects, environmental research centers, engineering research centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.
- Projects that involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, search and reporting and data reduction (such as epidemiological studies, clinical trials, and retrospective clinical records studies)
- Projects that require making extensive travel and meeting arrangements for a large number of participants, such as conferences and seminars
- Projects whose principal focus is the preparation and productions of manuals and large reports (other than routine progress and technical reports), books, and monographs
- Projects in a remote location that is not accessible to normal departmental administrative services, such as off-campus research
- Individual projects that require a significant amount of project-specific database management, individualized graphics, or manuscript preparation human or animal protocols; and multiple project-related investigator coordination and communications

OTHER NORMAL INDIRECT COSTS

Under Uniform Guidance, costs related to general office supplies (i.e., paper, pencils, toner cartridges, file folders, paper clips, etc.), postage, and telephone expenses (i.e., installation charges, monthly use charges & local access calls), memberships, laptops and iPads incurred in support of routine administrative activities of the university are considered indirect (F&A) costs and should not normally be charged to sponsored projects.

To directly charge these items to a project, the PI is responsible for justifying how the item will directly benefit the project and why it should not be considered a routine administrative activity ("unlike circumstance").

Direct benefit to the project justification:

- The project has a special need for the item or service that is beyond the level of services normally provided by departmental administration
- The cost can be specifically identified to the technical scope of work conducted under the project and is appropriately documented
- The cost is specified in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal
- The sponsoring agency accepts the cost as part of the project's direct cost budget (i.e., does not specifically disapprove the cost in the award or other notification to the University). For programs that do not require submission of a project budget to the sponsoring agency, e.g., NIH modular grants, the cost must be justified and approved by the designated official of the academic unit. A copy of the approved justification should be forwarded to Office of Sponsored Programs with the proposal.
- If the cost meets the first two (2) conditions listed above but was not included in the approved budget of the sponsored agreement, it may be charged directly to the agreement only where the University has re-budgeting authority under federal regulations or the terms of the sponsored agreement (please see specific award document or contact Office of Sponsored Programs for re-budgeting requirements). The re-budgeting request must be in writing and the justification must include the same information that would have been provided in the proposed project budget and must explain why the cost was not in the original budget. The designated official of the academic unit will approve these requests if the designated official is satisfied that the costs are appropriate and that the sponsoring agency would have approved the cost had it been in the original proposal.

Unlike circumstances" where the costs may be directly charged to the agreement are:

- membership fee required in order to attend a conference, where the conference is part of the agreement
- membership fee required in order to subscribe to a journal, where the subscription is necessary for the agreement
- postage for reprints, only in unusual circumstances, e.g., very large volume of reprints express mail shipping costs lab notebooks, pens, and other office-type supplies stored and used only in the laboratory or field for the technical work

RESOLVING COST OVERRUNS

UAB's policy is that the Principal Investigator ("PI") is ultimately responsible for resolving, in a timely manner, any over-expenditures or unallowable charges that occur on a sponsored project. In addition, federal regulations (Uniform Guidance CFR Part 200.405, prohibit the use of federal funds to cover over-expenditures: Any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by the terms of the sponsored agreement, or for other reasons of convenience. As such, if any cost overruns are identified by the Grants and Contracts Department during the grant closeout process the cost are moved off of the sponsored project to the Voluntary Cost Sharing ("VCS") account. The cost moved to the VCS account is to be covered by the Department with non-grant/contract funds.