13.5 Direct Cost

Policy Statement
To make payments for activities sponsored by grants, contracts, and cooperative agreements, the unit administering the project must determine whether the costs are allowable, allocable, and reasonable.

Reason for policy
The purpose of this policy is to ensure the University of Georgia (UGA) and the University of Georgia Research Foundation (UGARF) comply with the Federal Office of Management and Budget (OMB) standards regarding direct costs on sponsored projects. Direct costs on sponsored projects must be allowable, allocable, and reasonable. OMB provides the standards to which UGA and UGARF must conform in OMB Uniform Guidance. (https://www.whitehouse.gov/omb/grants_docs)

Procedures
All costs must be charged in a timely manner and must be:

- Allocable: The cost must have a direct benefit and be directly attributable to the project or activity being performed. "If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the costs should be allocated to the projects based on proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, …the costs may be located or transferred to benefited projects on any reasonable basis..."

- Allowable: Costs must be allowed by University policy, sponsor policies, the project's Notice of Contract/Grant Award, and federal policy.

- Reasonable and necessary for the performance of the project.

Any expense that does not meet all of these criteria cannot be charged to the externally sponsored project, in accordance with accounting practices of the University of Georgia.

University of Georgia policy, in accordance with OMB Uniform Guidance, defines costs as allowable or unallowable. Allowable costs must be treated as direct or facilities and administrative (F&A) costs (formerly referred to as indirect costs). There may be exceptions when OMB guidelines permit the direct charging of costs normally treated as F&A. If there is a conflict between agency and University policy, the more restrictive of the two applies. The following is a list of allowable costs.

1. Advertising - The recruitment of personnel required for the performance of a sponsored project, and the procurement of goods and services for the performance of a sponsored project may be treated as a direct cost.

2. Communication Costs - Local Charges - Local telephone, internet service, and data line charges are normally allowable as F&A costs.

3. Long Distance Charges - Long distance calls, telegrams, long distance fax charges, and various other communication expenses specific to a project may be directly charged. (Note: Installation charges, line charges, pagers, etc. are considered F&A costs and should not be charged directly to sponsored projects.)

4. Cell Phones –Only in specific circumstances may cell phone costs be charged directly to a sponsored project. These costs must be approved prior to proposal submission by OSP. Use the Request for Approval for Wireless/Cellular Service.
5. **Postage** - Routine use is treated as F&A costs. Expenses specific to a project may be directly charged, but these do not include mailing technical reports and other project correspondence. The difference between postage (F&A) and freight (direct) is driven by the item(s) being sent, not the means by which it is sent.

6. **Equipment** - Capital Equipment are items used on a specified project or contract with an acquisition cost greater than $5,000. See subsection under Materials, Supplies, Services, and Special Tooling for information regarding equipment fabrication.

7. **Materials, Supplies, Services, and Special Tooling** - Costs incurred for materials, supplies, and fabricated parts necessary to carry out a sponsored agreement are allowable.

   *Note:* Books - normally found in the University Library are generally treated as a F&A cost. As such, a request to purchase books must be justified in order to charge the cost as a direct cost.

   *Note:* Office Supplies and General Purpose Equipment – These items of cost are allowed as facilities and administrative costs. Costs include those incurred in support of routine administrative activities associated with instruction, public service, research and other institutional activities. This category includes, for example, computers (under $5,000), printers, monitors, digital cameras, fax machines, printer paper, toner cartridges, pens, pencils, legal pads, clips, rubber bands, post-it notes, notebooks, binders, folders, diskettes, CD-ROMs, and departmental stationery. The only exceptions are those wherein the purchase of the supplies is extensive in nature, can be specifically identified to the project and meets the definition of a direct charge adequately justified in the budget and approved prior to proposal submission.

8. **Computers and Peripherals** - can either be charged as scientific (direct) or general purpose (F&A) depending upon the actual usage of the item. For example, computers are necessary to the overall administration of a sponsored project; purchasing computers for this purpose would generally be considered an F&A cost. However, purchasing a computer to control and monitor scientific equipment represents a different circumstance or use of that equipment and would typically be allowed as a direct charge. This would be a line item in the budget and would need to be adequately justified. [http://www.busfin.uga.edu/procurement/](http://www.busfin.uga.edu/procurement/)

   Non-Capital Equipment - apparatus and other articles used on a specified project or contract with an acquisition cost of less than $5,000.

9. **Equipment fabrication** - occurs when multiple items, which could be classified as supplies (some having acquisition costs of $5,000 or less), are purchased to create/fabricate an integrated unit of equipment having a total value of $5,000 or more. In these instances, the individual purchases should be accounted for as equipment. See Property Control Accounting. Equipment Maintenance and Repair Costs are costs incurred for necessary maintenance, repair, or upkeep of equipment, which do not add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.

10. **Meetings and Conferences** - Costs of meetings and conferences, the primary purpose of which is the dissemination of technical information, are allowable. These include costs of meals, transportation, rental of facilities, speakers’ fees, and other items incidental to such meetings or conferences.

11. **Memberships, Subscriptions and Professional Activity Costs** - Institutional memberships (professional organizations), subscriptions (technical periodicals), and professional activities are normally treated as an F&A cost. Costs of membership in any civic organization, country club, social, or dining club are unallowable. An individual membership or subscription to a professional group or periodical may be allowed as a direct charge if the following can be demonstrated:

   I. The membership creates a cost-savings to attend a conference at which research results specific to a project will be presented, or membership is mandatory in order to present a paper specific to the project or

   II. The sole purpose of the membership is to purchase a periodical at a reduced rate, and the periodical is not available through the institution’s library services and the periodical is necessary for the sponsored project.
12. Personal Services - The salaries and wages of university employees and related staff benefits required to complete a sponsored project (including but not limited to Principal Investigator’s academic and summer salary, postdoctoral research associates, technicians and graduate students) should be budgeted, charged and reported as a direct cost under this category of expenditure. Salaries and wages include holiday, vacation, and sick pay as appropriate. Expenses used in computing fringe benefits are: (a) Social Security; (b) Teacher’s Retirement; and (c) Group Life and Medical Insurance.

As a rule, administrative and clerical salaries are treated as indirect costs, except as outlined in the following guidelines. These are considered Office of Management and Budget (OMB) exceptions. A non-exhaustive list of administrative and clerical positions includes fiscal officers, accountants, secretaries, directors, vice presidents, president, office personnel, executive assistants, and administrators.

When Administrative and Clerical Salaries and Staff Benefits Can Be Charged as Direct Costs:

Salaries and fringe benefits of administrative and clerical staff may be charged as direct costs in instances where sponsored projects require the services of administrative and clerical staff beyond the normal level provided by departmental administrators paid from a “GJ” account. The total cost of these services may be budgeted, charged, and reported as a direct cost to a sponsored project when all of the following conditions apply:

1. The specific type and nature of the services are not provided by the departmental administration account; and
2. The services are required by the project’s scope; and
3. The cost can be accurately identified to the project, and
4. The approved project budget narrative clearly describes the need for the service.

For example, charging administrative and clerical salaries and fringe benefits as a direct charge to a sponsored project may be permissible for projects that:

- Involve extensive data accumulation, statistical analysis and entry, database management, surveying, tabulation, cataloging, and researching literature.
- Involve the preparation and production of manuals and large reports or books. This does not include routine progress and technical reports.
- Require making extensive travel and meeting arrangements for large number of participants, such as conferences and seminars.
- Involve the management of a project at locations that are geographically inaccessible to normal departmental administrative services, such as research field sites remote from campus.
- Require special research security services at a level not normally provided by campus security.
- Are large, complex programs (such as general clinical research centers, primate centers, environmental research centers, engineering research centers, and other federally sponsored projects) that entail assembling and managing teams of investigators from a number of institutions or units. National Institutes of Health R01 grants do not qualify as complex programs.

These examples are not an exhaustive list, nor do they imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples. Individual projects cannot be grouped together to meet any of the criteria listed above.
It is the responsibility of the Principal Investigator (PI) or Project Director to support and justify in the proposal all direct costs to be charged to a sponsored award. The Office for Sponsored Programs will approve direct costs that meet Cost Accounting Standards exceptions guidelines.

13. Professional Service Costs - Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the institution are allowable. Refer to the specific agency’s policy and/or the UGA Purchasing Personal Services Policy and UGA Consulting Form.

14. Proposal Costs - Proposal costs for both successful and unsuccessful bids are treated as F&A costs.

15. Publication and Printing Costs - Printing, Binding, Publication - These costs are normally direct charges to a contract and grant account. The charge must be able to be specifically identified to a particular project with relative ease and high degree of accuracy, and that cost must provide a direct benefit to that project during the award period.

16. Copying Costs – Invoices from outside copy services should be retained as documentation to support the charge. Charges from the use of a departmental copier must be based on a per-copy charge and must be based on a cost study (refer to recharge center definition in Service Center policy). The associated expenses of the copy machine such as toner cartridge, paper, etc. cannot be charged directly to a contract or grant because it is impossible to allocate these costs among the many users of the machine. The per-copy cost must be based on total utilization of all activities (research, instruction, public service and other), not just research usage. Use documentation must be maintained through a utilization log. Costs of copying proposals or general correspondence not related to a specific project are not considered a direct charge.

17. Rearrangement and Alteration Costs - Rearrangement and restoration of the University's property or rented property, to the extent approved by the awarding Contracting Officer and sponsoring agency, is allowable.

18. Rental Costs of Buildings and Equipment - The rental costs of facilities (buildings, office space and laboratory space) and equipment not owned by UGA are allowable. They are allowable to the extent that the rates are reasonable in light of such factors as: rental costs of comparable property, if any; market conditions in the area; alternatives available; and the type, life expectancy, condition, and value of the property leased. Rental arrangements should be reviewed periodically to determine if circumstances have changed and other options are available.

19. Scholarships and Student Aid Costs - Costs of scholarships, fellowships, and other programs of student aid are allowable only when the purpose of the sponsored agreement is to provide training to selected participants and the charge is approved by the sponsoring agency.

20. Specialized Service Facilities – The costs of services provided by highly complex or specialized facilities operated by the institution are allowable as direct costs (refer to the UGA Service Center Policy 4.16).

21. Training Costs - The cost of training provided for employee development is allowable provided it is project specific, approved by the agency, and falls within audit requirements.

22. Transportation Costs - Costs incurred for freight, express, cartage, postage, and other transportation services relating either to goods purchased, in process, or delivered, are allowable. When such costs can readily be identified with the items involved, they may be charged directly as transportation costs or added to the cost of such items.

23. Travel Costs - Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the institution. For UGA’s policy on domestic and foreign travel, consult: Travel Policy.

Additional Criteria for Determining Direct Costs (for Non-Federal or Non-Federal Flow-Through Projects)

A cost must be included in the awarded budget. If a cost requires institutional and/or sponsor prior-approval after the award is made, the approval(s) must be secured before the cost is incurred.
The following list covers unallowable costs specified OMB Uniform Guidance and costs that are normally treated as Facilities and Administrative Costs. This is a quick reference. The specific wording in OMB Uniform Guidance should be referenced when greater detail is needed.

I. Advertising and Public Relations - Expenditures to promote the University are not allowable.
II. Alcoholic Beverages
III. Alumni Activities
IV. Bad Debts
V. Books – Books normally found in the University Library are treated as F&A costs.
VI. Commencement or Convocation costs
VII. Contingency Provisions
VIII. Charitable Contributions, Donations, Remembrances
IX. Development/Fundraising Costs
X. Entertainment Costs – including amusement, diversion, and social activities and any costs directly associated with such costs such as tickets to shows or sporting events, meals, lodging, rentals, transportation, and gratuities are not allowable.
XI. Fines and Penalties
XII. Goods or Services for Personal Use of Employees (including gifts)
XIII. Housing and Personal Living Expenses
XIV. Investment Management Costs
XV. Lobbying
XVI. Losses on Other Sponsored Agreements or Contracts - (cost overruns) - Any excess of costs over income under any other sponsored agreement or contract of any nature is unallowable. This includes, but is not limited to, the institution’s contributed portion of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for indirect costs.
XVII. Memberships - Costs of membership in any country club or social or dining club or organization are unallowable. Institutional memberships in professional organizations and subscriptions to technical periodicals are normally treated as an F&A cost.
XVIII. Office Supplies and General Purpose Equipment - Costs include those incurred in support of routine administrative activities associated with instruction, public service, research and other institutional activities. This category includes, for example, computers (under $5,000), printers, monitors, digital cameras, fax machines, printer paper, toner cartridges, pens, pencils, legal pads, clips, rubber bands, post-it notes, notebooks, binders, folders, diskettes, CDROMs, and departmental stationery. These items are considered readily expendable and are treated as F&A costs covered by the negotiated F&A cost rate. The only exceptions are those wherein the purchase of the supplies is extensive in nature, can be specifically identified to the project, and meets the definition of a direct charge adequately justified in the budget and approved in the terms and conditions of the award by the agency. The Office for Sponsored Programs will approve office supply costs when the need for the expenses meets the cost accounting standards exception guidelines.
XIX. Preagreement Costs - unless approved by the sponsoring agency or permitted under expanded authorities.
XX. Recruiting Costs - Normally treated as F&A cost. This will include visa application fees/expenses.
XXI. Selling and Marketing Costs - of any products or services of the institution.
XXII. Student Activity Costs - incurred for intramural activities, student publications, student clubs, etc. are unallowable.
XXIII. Telephone - Installation charges, monthly use charges, local access calls, pagers, etc. are considered F&A costs and should not be charged directly to sponsored accounts, except in the rarest circumstances. The basic telephone line charge and local calls may be charged directly to a sponsored project when a separate, dedicated telephone line is necessary solely for the performance of a sponsored project. The Office for Sponsored Programs will approve office supply costs when the need for the expenses meets the cost accounting standards exception guidelines.
XXIV. Travel - Commercial air travel costs in excess of the lowest available commercial discount airfare, Federal
government contract airfare (where authorized and available), or customary standard (coach or equivalent)
airfare costs are unallowable.

Additional contacts
Office for Sponsored Programs (OSP)

Policy definitions
Direct costs are costs associated with a specific sponsored project that can be directly assigned to essential activities
with relative ease and a high degree of accuracy. They include such costs as personnel (salaries and fringe
benefits), supplies, scientific equipment, travel, and other expenses necessary to the conduct of sponsored activities.

Facilities and administrative (F&A) costs, means costs that are incurred for common or joint objectives and therefore,
cannot be identified readily and specifically with a particular sponsored project. F&A costs are synonymous with
indirect costs. They include costs such as depreciation and use allowance, general purpose equipment and capital
improvements, operation and maintenance expenses, library expenses, departmental administration, and sponsored
project administration.

Sponsored activities are those externally funded activities that must be separately budgeted and accounted for
according to terms of the sponsoring organization, State regulatory precepts, and UGA policy.

Sponsored projects may include grants, contracts, and cooperative agreements with any Federal Agency, State
Agency, or non-Governmental Organization that supports research, training and public service activities.

Responsibilities
Responsible University Senior Administrator: Vice President for Finance & Administration
Responsible University Administrator: Associate Vice President & Controller
Policy Owner: Post Award Accounting
Policy Contact: Gail Chester
Phone Number: 706-542-9230
Responsibilities: University faculty, staff, and administrative personnel who submit and account for Grants and
Contract type funding must follow this policy.

Record Retention
This series provides a record of the establishment and administration of individually sponsored grant and contract
restricted funds accounts, documents compliance with fiscal reporting requirements, and includes billing information
for accounts receivable from sponsoring agencies and from departments for gift account fees. Grants may be federal,
state, corporate, or private. This series may include but is not limited to: project summaries; grant authorizations;
contract documents; project budget change and adjustment forms; invoices; receipts; cashier’s receipts; equipment
purchase orders; prior approval request forms; account request forms; vendor telephone contact logs;
subcontracts; sponsored programs post award accounting monthly budget summary statements; institution billings
balance sheets; reports for sponsored programs post award accounting that are operating on direct payments; final
financial reports; property reports; patent/invention reports; contractor’s release report; assignment of refunds and
rebates documents; equipment disposition reports; and related documentation and correspondence.

Record Copy: Institutional Archives; Post Award Accounting
Retention: Contracts, patents, and agreements for use of research outcomes: Permanent. All other accounting
records: 7 years after final financial report is submitted and the account is closed, unless otherwise specified as
longer by the terms of the contract
Citation or Reference: OMB Uniform Guidance; BOR Research Grant Records 0472-09-006

Policy Appendices
**Determination Factors**

**Allowable Costs:**
This factor determines whether a cost being considered would be authorized for payment under the terms of the award made by the sponsor. The question to ask is, “Will the sponsor pay for this expense?” The tests as to whether a cost is allowable are:

I. the cost must be reasonable;
II. it must be possible to allocate the cost to a sponsored project using the principles and methods provided by the project;
III. the cost must be given consistent treatment by application of generally accepted accounting principles appropriate to the circumstances and in compliance with the University’s Disclosure Statement; and,
IV. the cost must conform to any limitations or exclusions set forth in OMB Uniform Guidance, the award document, the sponsoring agency’s guidelines in terms of types or amounts of cost items, State regulations, or UGA policy.

**Allocable Costs:**
A cost is allocable if a specific good or service is chargeable or assignable to a particular cost objective (i.e., a specific function, project, sponsored project, department or the like) in accordance with the relative benefits received or other equitable relationship. The question to ask is, “Is the expense related to the project?” The tests as to whether a cost is allocable are:

I. is the cost incurred solely to advance the work of the sponsored project;
II. does the cost benefit both the sponsored project and other work of the institution in proportions that can be approximated through use of reasonable methods; or,
III. is the cost necessary to the overall operation of the institution based on the principles in OMB Uniform Guidance or as deemed assignable by the sponsored project.

*Note:* In the case of equipment or other capital items purchased with specific authority of a sponsored project, the amount authorized for such purchases is assignable to the sponsored project regardless of the use that may subsequently be made of the items. Any cost allocable to a particular sponsored project according to the standards of the project may not be shifted to other sponsored projects to compensate for overruns, other reasons of convenience, or to avoid restrictions in law or the sponsored project. Neither may costs allocable to activities sponsored by industry, foreign governments, or other sponsors be shifted to federally-sponsored projects.

**Reasonable Costs:**
A cost is considered reasonable if the nature and amount of the goods or services acquired for a specific sponsored project reflect the actions of a prudent person under the circumstances prevailing when the decision to incur the cost was made. The question to ask is, “Is the expense reasonable?” Major considerations in determining the reasonableness of a cost are:

I. whether or not the cost is generally recognized as necessary for the performance of the sponsored project or the operation of the institution;
II. the restraints or requirements imposed by factors such as arm’s-length bargaining, Federal and State regulations, terms and conditions of a sponsored agreement, or agency guidelines;
III. whether or not the individuals acted with prudence in considering their responsibilities to the institution, its employee, its students, State or Federal Government, and the public at large; and,
IV. whether the actions taken to incur the cost are consistent with established institutional policies and practices applicable to the work of the institution generally and inclusive of sponsored projects.

**Determination Strategy:**
The first question to ask in making a determination as to whether a particular cost on a sponsored project is allowable, allocable, and reasonable is: Does the cost benefit the project? While a prudent person might have
proposed a certain cost that is no longer necessary at the point a project is funded, rebudgeting must ensure continued benefit to the project in question rather than benefit a different project or purpose. Several documents can be reviewed to help determine whether a particular cost is allowable, allocable, and reasonable. While the following list is not exhaustive, it does provide a reasonable course of action that for many circumstances will provide a measure of confidence as to the allowable, allocable, and reasonable nature of individual costs.

1. **Approved Project Budget**  
The first document to review is the agency-approved budget for the project. Does the proposed expense appear as a line item in the budget? If the item does not appear in the budget, the item may be allowable under rebudgeting authority or with prior approval in writing from the funding agency.

2. **Award Document or Contract**  
The allowability of certain costs may be addressed in the award document or the contract issued by the sponsoring agency. In some instances, grant awards may identify certain costs based on recommendations from the peer review system that are specifically not allowed by the sponsoring agency.

3. **Agency Guidelines**  
Most agencies have guidelines for administering awards that give direction on allowing certain costs. Travel costs may appear in the budget, for example, yet the specific cost of airfare to attend a meeting in Europe may require prior approval according to the guidelines of the sponsoring agency.

4. **OMB Uniform Guidance**  
The primary regulations governing the determination of whether costs are allowable, allocable, and reasonable on federal grants, contracts, and cooperative agreements is OMB Uniform Guidance. This also serve as the guidelines followed by UGA and UGARF in making similar determinations on all externally sponsored projects. OMB Uniform Guidance identifies allowable costs and gives guidance on such costs are to be charged directly to a sponsored project or allocated as facilities and administrative (F & A) costs. The institution is expected to be consistent in its treatment of expenses, but OMB Uniform Guidance also provides guidelines for determining when an exception can be made. While “like” circumstances must be treated the same, there is a degree of latitude with ”unlike” circumstances.

**FAQs**

How can books be considered an “unallowable” cost?  
The quick reference guide provided above lists costs that are unallowable as a direct charge on restricted accounts. While Uniform Guidance considers books allowable, they are typically treated as facilities and administrative (F&A) costs. In other words, the University recovers expenses paid for books through the F&A rate application. If books are charged as direct costs, it would be “double dipping.”

Policy Dates

Effective Date:  
Date Last Updated: 06/13/2017

Date of Last Review:

Date of Approval:

Previous Version of Policy: