

Effective: 8/1/2001

Supersedes:

Issuing Office: Office of Post Award Financial Services (OPAFS)

---

## CLASSIFICATION OF COSTS AS DIRECT OR FACILITIES AND ADMINISTRATIVE (INDIRECT)

### I. REFERENCES AND RELATED POLICIES

- A. [OMB Circular No. A-21, Cost Principles for Educational Institutions](#)
- B. Cost Accounting Standards Board Regulations, Part 9905.502, Consistency in Allocating Costs Incurred for the Same Purpose by Educational Institutions
- C. [UCSD Cost Accounting Standards Board Disclosure Statement \(CASB DS-2\)](#)
- D. UCSD Policy and Procedure Manual (PPM)
  - [150-14](#) Facilities and Administrative Costs (F&A) Cost Rates Development Process & Timetable
  - [150-15](#) Facilities and Administrative Cost Rates Applicable to Research, Instruction, and Other Federal and Non-Federal Sponsored Projects
  - [150-45](#) Cost Sharing on Sponsored Projects
  - [300-40](#) Guidelines for Recharge and Other Income-Producing Activities
  - [300-51](#) Account Code Validation
  - [150-40](#) Cost Accounting Standards Compliance
  - [150-43](#) Accounting for Unallowable Costs
- E. Supplemental Guidance for Direction Charging Costs Items in Accordance with OMB Circular A-21, Section F.6.b

### II. DEFINITIONS

#### A. Allocation

The process of assigning a cost, or a group of costs, to one or more cost objectives in reasonable and realistic proportion to the benefit provided or other equitable relationship.

#### B. Cost Objective

As defined in federal regulations, a cost objective is a function, organizational subdivision, contract, or other work unit for which cost data are desired and for which provision is made to accumulate and measure the cost of processes, products, jobs, capitalized projects, etc. A cost objective, which is also typically referred to as a "cost category," may be a major function of the institution, a particular service or project, a sponsored agreement, or an F&A cost activity.

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

Costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instruction activity, or any other institutional activity and cannot be directly charged. A grouping of incurred costs that is identified with two or more cost

Effective: 8/1/2001

Supersedes:

Issuing Office: Office of Post Award Financial Services (OPAFS)

---

objectives but not with any final cost objective is referred to as an F&A cost pool. F&A costs are also referred to as "indirect" costs.

**D. Indirect cost**

See C., "Facilities and Administrative Costs above."

**E. Labor Clearing Fund**

A labor clearing fund is a method of capturing and assigning the labor costs of academics, staff, and students who work on multiple projects, whose work involves frequent changes in assignments or funding sources, and where the individual's effort satisfies the requirements for direct costs as described in this policy (Section V – B. *Treatment of Costs as Direct*). Refer also to PPM [300-40](#), Exhibit D.

**F. Like and Unlike Circumstances**

The consideration of whether a particular type of cost may sometimes be charged direct and sometimes indirect involves assessment of various factors to determine whether "unlike" circumstances may exist to justify differing treatment of a cost. Examples of unlike circumstances include the direct charging of utility costs for the supercomputer facility, or other situations when a particular cost type or amount represents a level of service or support that is over-and-above the normal level of service or support provided by the campus to all projects or activities.

**G. Major Project**

A major project, as defined in OMB Circular A-21 and used in this policy, is one that requires an extensive amount of administrative or clerical support that is significantly greater than the routine level of such services provided by academic departments. See Supplement II for examples of "Major Projects".

**III. BACKGROUND/SCOPE**

**A.** OMB Circular A-21, Cost Principles for Educational Institutions (A-21), provides principles for determining costs applicable to research and development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the federal government. This includes guidance regarding the classification of costs as direct or F&A (indirect). Among its other provisions, OMB Circular A-21 requires consistency in the treatment of costs, identifies certain costs as being normally F&A, provides examples of when normally F&A costs may be considered direct, and establishes recovery ceilings or "caps" on F&A cost recovery.

**B.** OMB Circular A-21 was revised in 1996 to incorporate four cost accounting standards applicable to educational institutions that had previously been promulgated by the Cost Accounting Standards (CAS) Board under Public Law 100-679. One of these standards, [CAS 502](#), Consistency in Allocating Costs Incurred for the Same Purpose, specifically addresses the need for consistency in the treatment of costs as direct or F&A in similar circumstances.

**C.** Along with the requirement to comply with four standards, the CAS Board imposed a cost accounting disclosure requirement on certain institutions receiving large amounts of federal funding. This disclosure requirement applies

**UCSD POLICY AND PROCEDURE MANUAL  
CONTRACTS AND GRANTS (RESEARCH)  
SECTION 150-42 PAGE 3**

Effective: 8/1/2001

Supersedes:

Issuing Office: Office of Post Award Financial Services (OPAFS)

---

to UCSD and includes a requirement that the institution's criteria for distinguishing direct from F&A costs be described and consistently followed.

- D. The requirements imposed by OMB Circular A-21 and the CAS Board form the basis of this policy. The criteria for classification of costs as direct or F&A are described in the campus Disclosure Statement (CASB DS-2).
- E. The proper classification of costs as direct or F&A is a key component of the institution's compliance with federal regulations and CAS. A determination of non-compliance may result in financial penalties for the University and could affect UCSD's ability to qualify for federal funds.
- F. This policy is one of several addressing issues related to CAS and compliance with federal cost accounting requirements. See Section I. for other related policies.

#### **IV. POLICY**

The following guidelines apply to all cost accounting practices that pertain to or affect the costing of sponsored activities:

- A. All costs incurred for the same purpose, in like circumstances, shall be consistently classified as either direct costs only or F&A (indirect) costs only.
- B. No final cost objective shall be charged both direct and indirect for the same type of cost when incurred in like circumstances.
- C. Individuals who are responsible for submitting proposals, assigning costs, or preparing billings shall be familiar with the requirements of this procedure and with the cost classification criteria described in the CASB DS-2. They shall comply with the requirements in these documents and shall seek guidance from designated offices when uncertain about the proper classification of particular cost types.
- D. The treatment of costs as direct or F&A shall be consistent both within a department and among campus departments and schools in like circumstances.

#### **V. PROCEDURES**

##### **A. General Guidelines for Assigning Costs**

1. The requirements in this procedure are equally applicable to the accounting for incurred costs and for estimates of costs to be incurred as used in proposals.
2. The campus CASB DS-2 sets forth cost accounting practices with regard to the distinction between direct and F&A (indirect) costs. In addition, for those types of costs that are sometimes accounted for as direct and sometimes accounted for as F&A, it sets forth circumstances for making such distinctions. The CASB DS-2, by distinguishing between direct and F&A costs and by describing the criteria and circumstances for allocating those items which are sometimes direct and sometimes F&A, is considered determinative as to whether or not costs are incurred for the same purpose.

**UCSD POLICY AND PROCEDURE MANUAL  
CONTRACTS AND GRANTS (RESEARCH)  
SECTION 150-42 PAGE 4**

Effective: 8/1/2001

Supersedes:

Issuing Office: Office of Post Award Financial Services (OPAFS)

---

3. Consistent with the rules and limitations imposed by this procedure, the cost accounting practices disclosed in the CASB DS-2, and provisions of OMB Circular A-21, costs shall be identified and charged directly to benefiting federally sponsored agreements or similar cost objectives to the maximum extent possible.
4. The identification with a particular activity, rather than the nature of the cost, shall be the determining factor in distinguishing a direct from an F&A cost.

**B. Treatment of Costs as Direct**

**Begin Revision 1/1/2002**

1. Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Identification with the sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from F&A costs of sponsored agreements.
2. Costs that are normally considered indirect may be treated as direct costs if the purposes and circumstances for which these costs are incurred are different (unlike circumstance), and they meet all of the following conditions:

**End Revision 1/1/2002**

- a. The cost must be required to satisfy the project scope.
- b. The cost must be identifiable to the specific project with a high degree of accuracy.
- c. With regard to salaries of administrative and clerical staff as described in OMB Circular A-21 F.6.b, these costs may be appropriate as direct charges when identified with a "major project" (defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments). Specific exceptions to the provisions of this section are allowed for:
  - (1) "uniquely-costed grants", which have a significantly reduced F&A rate applied, and are approved for the direct charging of certain costs that would otherwise be recovered via the standard overhead rate (i.e., F&A rate), and
  - (2) "institutional allowances", which by their nature are intended to pay for administrative expenses.
- d. The cost must be budgeted into the award or the agency must permit rebudgeting to allow charging of the cost.

**UCSD POLICY AND PROCEDURE MANUAL  
CONTRACTS AND GRANTS (RESEARCH)  
SECTION 150-42 PAGE 5**

Effective: 8/1/2001

Supersedes:

Issuing Office: Office of Post Award Financial Services (OPAFS)

---

3. To comply with 2 (c) above (except for uniquely costed grants and institutional allowances as noted above), both of the following tests must be met:
  - a. Definitional Test: Determine if the effort is identified with a major project. Refer to Supplement II for examples of “major projects” and types of supporting activities that require “significantly greater than routine” effort, and determine if a particular project qualifies.
  - b. Empirical Test: Determine if the effort identifiable with a “major project” satisfies one of the following:
    - (1) The administrative or clerical effort of an individual is at least 15 percent of either (i) the employee’s total annual effort or (ii) the employee’s effort during a definable period within the project, or
    - (2) The administrative or clerical employee’s effort has been distributed using the labor clearing fund approved for this purpose and at least 80 percent of the employee’s effort is assigned to sponsored activities. (Refer to PPM [300-40](#), Exhibit D for a description of when labor clearing funds are appropriate and how they are used.)
    - (3) A level of administrative or clerical effort that is less than that specified in the Empirical Test may be charged direct only in exceptional circumstances. Exceptional circumstances exist where the type of administrative or clerical effort is not normally encountered at UCSD and/or adherence to this policy would result in a clear and significant inequitable cost distribution. Departments must adequately document why such effort is required to support the major project. As exceptional circumstances are expected to occur infrequently and involve unusual circumstances, the advance approval of the CAS Compliance Officer, or designee, is required.
4. The above criteria related to salaries of administrative and clerical staff are also presented in a decision tree format in Supplement I.
5. Exceptions to the criteria above may be appropriate when:
  - a. A direct cost item is insignificant in amount. Any cost that would normally be considered direct in accordance with the criteria may be treated as an F&A cost if the amount is immaterial and similar items of similar amounts are also treated as F&A,
  - b. Minor salary charges, representing corrections to pay distributions or retroactive settlement of collective bargaining agreements, as long as the original salary charge was compliant with the provisions of this section, and
  - c. When related projects are approved and create major projects from a combination of smaller awards. In such cases, the compliance of direct administrative costs with these provisions

would be determined based on the total effort across the multiple funds.

**C. Treatment of Costs as F&A**

1. F&A (indirect) 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. Nor can these costs be assigned to specific benefiting activities relatively easily with a high degree of accuracy.
2. Costs that are not determined to be direct in accordance with the criteria provided in Section B. above shall be considered F&A.
3. Any type of expense that is charged to sponsored agreements as a direct cost must be consistently treated as direct and be excluded from the F&A costs allocable to sponsored agreements. UCSD accomplishes this requirement by performing a calculation called a "Direct Charge Equivalent (DCE)" to exclude such costs from its F&A cost rate proposals. Refer to PPM [150-14](#) ("Facilities and Administrative Cost Rates – Development Process and Timetable") Exhibit B for additional information on DCE.

**D. Specific Considerations**

1. Unlike Circumstances
  - a. When costs are incurred under unlike circumstances, similar types of costs may be treated as direct under one circumstance and indirect under the differing circumstances. This does not violate the consistency requirements as long as all similar costs are treated in the same manner in like circumstances. Determining what constitutes an unlike circumstance requires evaluation of several factors. For assistance in determining potential unlike circumstances, refer to the CASB DS-2 or contact the CAS Compliance Officer, OPAFS.
  - b. The willingness of a funding agency or customer to pay for a normally F&A expense as a direct cost is not sufficient to constitute an unlike circumstance under this procedure or federal regulations. Accordingly, that willingness alone shall not constitute sufficient justification for direct charging normally F&A costs.
  - c. Documentation shall be maintained by departments to explain, and to serve as support during possible federal audits, the determination that unlike circumstances pertained to a specific cost or group of costs.
2. Cost Sharing
  - a. Cost sharing represents the commitment of University resources/ funding to supplement externally sponsored projects. The supplemental resources or funding may be required as a condition of accepting a sponsored project or may be incurred at the University's discretion.

**UCSD POLICY AND PROCEDURE MANUAL  
CONTRACTS AND GRANTS (RESEARCH)  
SECTION 150-42 PAGE 7**

Effective: 8/1/2001

Supersedes:

Issuing Office: Office of Post Award Financial Services (OPAFS)

---

- b. Formal cost sharing is defined as cost sharing which meets one or more of the following criteria:
    - (1) Included and quantified in the proposal budget,
    - (2) Identified and quantified in the proposal narrative, or
    - (3) Included and quantified in the award document.
  - c. Cost sharing shall be identified to the sponsored project to which it pertains and shall absorb applicable F&A costs in the same manner as direct costs.
  - d. Refer to PPM [150-45](#), *Cost Sharing on Sponsored Projects*, for a complete description of cost accounting requirements pertaining to formal cost sharing.
3. Recharge Centers
- a. A recharge or service center is an intermediate cost objective in that it captures the total costs applicable to its operations and then subsequently recovers its costs by billing users at predetermined rates for the services or products it provides. Refer to PPM [300-40](#) for a more complete description of recharge and other income-producing activities.
  - b. Recharge center charges may be direct or F&A depending on the purpose for which the center's services or products are obtained. The criteria for determining whether these charges should be considered direct to a specific sponsored project or other final cost objectives or considered F&A shall be the same as those used for other types of costs incurred by a department.
  - c. As with other cost types, costs billed from recharge centers shall be treated consistently as direct or F&A when like circumstances exist.
4. Distributions Based on Payroll
- a. Certain costs are closely associated with either employee headcount or payroll dollars and, accordingly, are distributed in the same proportion as the associated headcount or dollars of benefiting employees. Typical examples of these costs are retirement benefits, which are distributed based on the salaries and wages of eligible employees, and telecommunications and network costs, which are distributed as a monthly charge to each knowledge worker.
  - b. Certain other fringe benefit costs are identified to the specific employees for which the costs are incurred. Examples include medical insurance, workers compensation insurance, and FICA contributions.
  - c. For either of these allocation methodologies, the fringe benefits or other costs shall be classified as direct or F&A in the same ratio as the labor headcount or payroll dollars with which they are associated. Likewise, those costs that are classified as direct

shall be apportioned among programs in the same ratio as the salaries of the individual or individuals with which they are associated.

5. Telecommunications and Network Access Costs

- a. Using a payroll-based distribution described above, data and voice network access costs are charged to benefiting communication users, according to the level of assignment (FTE), and the location and corresponding benefits received. The monthly access fee charged to communication users is assigned to specific sponsored agreements and other fund sources in the same proportion as their salaries.
- b. A portion of the data and voice network system, primarily consisting of capitalized campus general improvements, is funded by the campus and classified as part of campus F&A costs, consistent with the classification of other campus general improvements.
- c. Communication users are also directly charged for other products or services that are not included in the monthly fee or the F&A general improvement amount. These include items such as the telephone instrument, voicemail, remote access fees, connection installations, and long distance toll charges. The communication users are responsible for identifying the appropriate fund sources for these additional charges, based on a relative benefit. If an alternative allocation method is used it shall be documented.

6. Cost Transfers and Rebudgeting

The classification of costs resulting from cost transfers and rebudgeted programs must adhere to the requirements of this procedure, the CASB DS-2, and OMB Circular A-21 for consistent treatment of costs as direct or F&A in the same manner as the initial charges.

7. Implementing Changes

In the event that UCSD decides to change any criteria regarding how costs are classified as direct or F&A, appropriate changes will be made to this policy and to the practices described in the CASB DS-2. Until such changes become effective, the disclosed practices and this policy shall be adhered to for classification decisions.

**VI. RESPONSIBILITIES**

**A. Principal Investigator/Department**

Responsible for developing proposals requesting extramural support and for assuring that all direct costs proposed and incurred comply with the requirements of this policy and meet the federal and University criteria for proposing and charging of direct costs.

Effective: 8/1/2001

Supersedes:

Issuing Office: Office of Post Award Financial Services (OPAFS)

---

**B. Office of Contract and Grant Administration (OCGA)**

Responsible for all direct versus F&A cost issues and inquiries related to proposal development and preaward activities, and for negotiation of project terms and conditions.

**C. Financial Analysis Office**

Responsible for all direct versus F&A cost issues relating to campus recharge activities, and to the development and negotiation of F&A cost rates.

**D. Office of Post Award Financial Services (OPAFS)**

Responsible for all direct versus F&A cost issues relating to project accounting, financial reporting, effort certification, and other post-award aspects.

**E. CAS Compliance Officer**

The CAS Compliance Officer for UCSD is the Director of the Office of Post Award Financial Services (OPAFS). The Director has operational authority and responsibility to ensure that UCSD maintains a reasonable level of compliance with CAS requirements.

**F. Audit & Management Advisory Services**

Responsible for conducting a recurring program of audits to evaluate business processes and activities, and the adequacy of departmental and division internal controls to provide reasonable assurance of compliance with appropriate federal and state regulations, and University policies and procedures.

**G. Office of the Controller**

Overall responsibility for direct versus F&A compliance and cost implementation.

**CRITERIA FOR CHARGING ADMINISTRATIVE AND CLERICAL COST  
TO FEDERAL AWARDS**

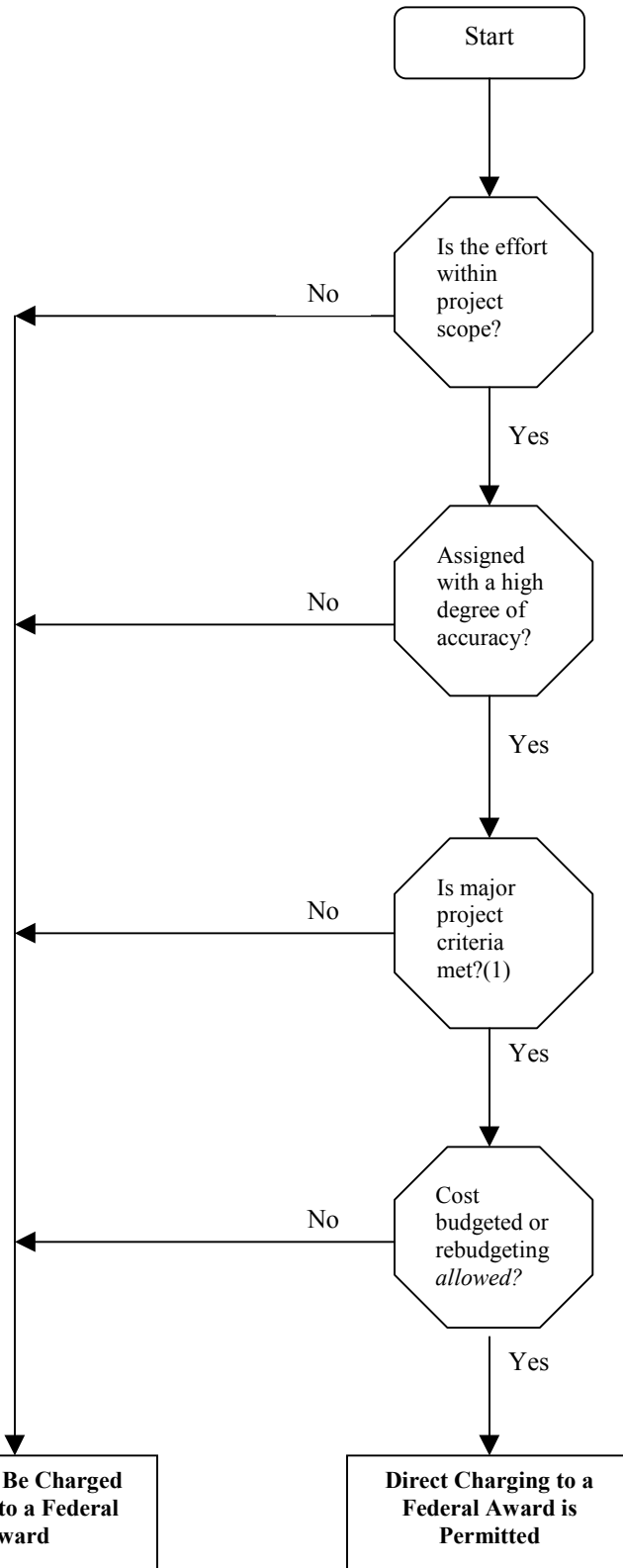
**REFERENCE NOTES**

(1) Normally, **both** of the following two tests must be met in order to answer “Yes” to the decision about Major Project Criteria:

- **DEFINITIONAL TEST:** Refer to Supplement II of this policy for examples of “major projects” and types of supporting activities that require “significantly greater than routine” effort, and decide if the project qualifies, **AND**
- **EMPIRICAL TEST:** Effort is 15% or more of an individual’s total annual effort, or the individual’s effort for a definable period within the project period, **OR** the individual’s effort is reported via a labor clearing fund and 80% or more of the individual’s effort is devoted to sponsored projects,

**OR**

In **EXCEPTIONAL CIRCUMSTANCES**, departments must adequately document why effort of less than that specified in the Empirical Test is required to support the major project. **Advance approval of the CAS Compliance Officer is required.**



Effective: 8/1/2001

Supersedes:

Issuing Office: Office of Post Award Financial Services (OPAFS)

---

## **EXAMPLES OF MAJOR PROJECTS**

Examples are provided below to be used in determining when salaries of administrative and clerical staff may be in support of a "major project." These are only examples and should not be considered a comprehensive listing of all possible situations.

Section I. below quotes the text of OMB Circular A-21 Exhibit C. Section II. provides additional examples of types of activities in support of major projects.

### **I. OMB Circular A-21: Cost Principles for Educational Institutions, Exhibit C:**

"Examples of 'major project' where direct charging of administrative or clerical staff salaries may be appropriate.

- 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, searching literature, and reporting (such as epidemiological studies, clinical trials, and retrospective clinical records studies).
- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- Projects that are geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research field sites that are remote from campus.
- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communications.

These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples. For instance, the examples would be appropriate when the costs of such activities are incurred in unlike circumstances, i.e., the actual activities charged direct are not the same as the actual activities normally included in the institution's facilities and administrative (F&A) cost pools or, if the same, the indirect activity costs are immaterial in amount. It would be inappropriate to charge the cost of such activities directly to specific sponsored agreements if, in similar circumstances, the costs of performing the same type of activity for other sponsored agreements were included as allocable costs in the institution's F&A cost pools. Application of negotiated predetermined F&A cost rates may also be inappropriate if such activity costs charged directly were not provided for in the allocation base that was used to determine the predetermined F&A cost rates."

**UCSD POLICY AND PROCEDURE MANUAL  
CONTRACTS AND GRANTS (RESEARCH)  
SECTION 150-42 PAGE 2 *Supplement II***

Effective: 8/1/2001

Supersedes:

Issuing Office: Office of Post Award Financial Services (OPAFS)

---

**II. Additional Examples of Activities in Support of “Major Projects”**

- Computer research work
- Competitive procurement (large equipment, consultant contracts, etc.)
- Conducting a telephone survey
- Coordinating and managing subcontracts
- Coordinating *extensive* travel and meeting arrangement
- Creating and maintaining budgets beyond the *routine*
- *Extensive* data entry
- *Extensive* research accumulation
- *Extensive* interviewing (e.g., human subjects, data collection, etc.)
- Managing projects with multiple sites
- Planning and organizing large conferences
- Preparing manuscripts/publications beyond the routine
- Preparing materials for presentation beyond the routine
- Project-related transcribing beyond the routine