

Cost Accounting Standards at Stony Brook University

Effective January 1, 1999

I. Who Should Know This Policy

- Provost
- Principal Investigators
- Service Center Managers
- Vice Presidents
- Unit Administrators and Staff
- Controller's Office
- Deans
- Office of Grants Management
- Internal Audit
- Directors/Department Heads or Chairs
- Office of Sponsored Programs
- Accounting Department

II. Related Information

- Federal Office of Management & Budget - [Circular A-21](#) - Cost Principles for Educational Institutions
- Federal Office of Management & Budget [Circular A-110](#) - Uniform Administrative Requirements
- Grant Policy Statement of NIH and NSF Agency guidelines
- Policy on the Financial Management of University Service Centers

III. Contacts

- For cost allowability on a specific sponsored project, contact the appropriate Grant Specialist in the [Office of Grants Management](#).
- For questions relating to the budgeting of direct and indirect costs, contact the appropriate Sponsored Programs Coordinator or Contract and Grant Administrator in the [Office of Sponsored Programs](#).

IV. Policy Statement

This policy establishes consistent practices for defining and charging costs as either direct or facilities and administrative costs (indirect costs). It outlines practices which must be consistently applied, in like circumstances, throughout the institution for both sponsored and institutional accounts. This policy has been established to meet the compliance standards set forth in Office of Management and Budget (OMB) Circular [A-21](#), Cost Principles for Educational Institutions and the Cost Accounting Standards for Educational Institutions. It is the responsibility of all account holders

including: vice presidents, deans, chairs, principal investigators, department heads and administrators to understand and comply with this policy.

V. Reason for Policy

As a recipient of federal awards, the University is obliged to comply with numerous rules and regulations promulgated by various federal offices. These organizations include sponsoring agencies such as the National Institutes of Health and the National Science Foundation, and regulatory agencies such as the Office of Management and Budget (OMB). The OMB has adopted regulations from the **Cost Accounting Standards Board** (CASB) and applied them to educational institutions. Included in these regulations is a requirement for universities to disclose to the federal government their practices regarding charging costs to projects either as direct costs or facilities and administrative (indirect costs) if they receive federal awards in excess of \$25 million. The University's practice of charging costs to sponsored and institutional accounts has been disclosed to the federal government as described in this policy. Therefore, adherence to these cost principles and practices by the University is necessary to prevent cost disallowances by the federal government.

VI. Definitions

Allocable Costs

Allocable costs are costs of goods or services that are chargeable or assignable to a specific project, function, department, or cost center based on the relative benefits received or other equitable relationship of the goods or services to the specific project, function, department or cost center.

Direct Costs

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. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or facilities and administrative costs (indirect costs). Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs for all activities of the institution. A direct cost is one where a specific grant or contract gains explicit benefit from that cost for a specific programmatic purpose.

Facilities and Administrative (Indirect) Costs

Facilities and Administrative costs are infrastructure costs of the university needed to support the programs of the institution. These programs include research and other sponsored programs and are those costs 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. At educational institutions such costs normally are classified under the following facilities and administrative cost categories: depreciation and/or use allowances, general

administration, sponsored projects administration, operation and maintenance expenses, library expenses, departmental administration expenses, student services, the cost of electricity and heating, accounting services, personnel services, purchasing, and human subjects administration are examples of indirect costs.

Consistent Treatment of Costs

Consistent treatment of costs is a basic cost accounting principle and is specifically required by Circular **A-21** to assure that the same types of costs are not charged to sponsored agreements both as direct costs and as facilities and administrative 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 facilities and administrative costs. Thus, since certain types of costs, such as the salaries of administrative and clerical staff, office supplies, and postage are normally treated as facilities and administrative 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 a facilities and administrative 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.

Service Centers (SCs)

A University unit that sells goods or services predominately to colleges or departments within the institution. SCs and department recharge accounts (internal department services) must adhere to this policy in the development and billing of their rates. Periodically, rates for SCs must be reviewed by the Controller's Office and approved by the University Controller.

Sponsored Projects

Projects funded by federal and nonfederal agencies with specific time frames, guidelines, expected outcomes and reporting requirements. Sponsored projects include grants, contracts and cooperative agreements for research, training and public activities.

VII. Responsibilities

Principal Investigators

Responsible for ensuring the appropriateness of all charges on sponsored projects. Ensure the consistent application of direct costing practices to their sponsored projects with the assistance of the unit administrator and the Office of Grants Management. Determine, justify and document the

circumstances when costs normally charged as facilities and administrative (indirect) are charged as direct.

Unit administrator

Assist principal investigators in determining and justifying circumstances when costs normally charged as facilities and administrative (indirect) are charged as direct. Ensure consistency of charging practices within the unit, review sponsored project proposals for justification of direct costs requested, especially when costs normally charged as facilities and administrative (indirect) are proposed as direct costs.

Dean/Department Head

Establish effective processes and controls that will ensure compliance with this policy. Communicate these practices to all responsible employees within the college and departments.

Office of Sponsored Programs and Office of Grants Management

Interpret the federal regulations, such as OMB Circular **A-21**. Develop and maintain policies and procedures in accordance with the regulations. In conjunction with the Vice President for Research, provide related training and guidance to the University community. Establish sponsored project accounts in the RF accounting system and assign the appropriate function codes. Review ongoing transactions for appropriateness under federal and campus policies.

Department of Internal Audit

Independently evaluate compliance with the federal costing policies and institutional practices.

VIII. General

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or facilities and administrative (indirect) costs across all functions or activities of the institution, unless special circumstances exist. For example, general office supplies are considered as facilities and administrative (indirect) costs and included in the indirect cost rate, therefore they generally cannot be charged as direct costs to sponsored projects, or institutional accounts that charge sponsored projects, (i.e., IFR accounts). Refer to **Special Circumstances - facilities and administrative (indirect) costs charged direct**, for exceptions.

IX. Charging Direct Costs

Determining Direct Costs

For an expenditure to be considered as a direct cost it must be:

- Reasonable and necessary for the performance of the project.
- Allowable - Costs that are specifically allowed under the terms and conditions of sponsored projects and by OMB Circular [A-21](#).
- Allocable and easily identifiable - The cost must have a direct benefit and be directly attributable to the project or activity being performed.

Costs incurred for multiple projects/activities must be identified as follows:

If the cost is specific and benefits more than one project, the cost can only be assigned or allocated to the project(s) based on that portion of the expense that represents the direct benefit to the project. If the cost benefits both a sponsored project and a non-sponsored project, only the proportion of the cost that benefits the sponsored project may be charged to that project. For example, a computer is purchased specifically for two projects. Project A consumed 40% of the computer's usage and Project B 60%. The cost of the computer would be charged to the projects based on the proportionate benefit to each project. The proportionate benefit is based on the actual usage. Therefore, 40% of the cost is allocated and directly charged to Project A, and 60% is allocated and directly charged to Project B.

If the benefit is spread over multiple projects to serve common shared activities and it is difficult to identify a direct benefit to each activity or project, the cost must be considered an indirect cost. For example, a \$400 refrigerator frequently used in a laboratory for six projects makes it difficult to accurately assign a direct benefit to each project. The cost should be considered an indirect cost and charged to a non-sponsored account.

The basis used for allocating direct costs to projects/activities must bear a direct relationship to those projects/activities. This allocation of costs should be made at the time of purchase. If an appropriate basis such as actual usage cannot be identified to allocate the costs with relative ease and with a high degree of accuracy, such costs must be considered as facilities and administrative (indirect) costs.

Unacceptable Direct Cost Charging Practices

The following example is an unacceptable practice of direct charging on sponsored projects or any other institutional activity affecting sponsored projects: - Rotating charges among projects without establishing that the rotation schedule accurately reflects the relative benefit to each project during that specified period of time

Common Direct Costs

Items normally charged as direct costs of sponsored projects include salaries of project director and project staff and related fringe benefits (based on certifiable effort), materials and supplies, travel, consulting, equipment, long distance telephone charges and sub-awards. Refer to [Appendix A](#) for a typical list of items normally charged as direct costs of sponsored projects.

Charging Facilities and Administrative (Indirect) Costs

Costs incurred and identified in certain institutional accounts and thus included in the development of the University's indirect cost rate must be:

- Allowable - Costs that are allowed by OMB Circular **A-21**.
- Allocable - The cost must have an associated benefit to the indirect cost function(s) being performed (general administration, departmental administration, operations and maintenance, etc.).
- Reasonable and necessary for the general administration and/or operations of the unit(s), projects or activities.

Clerical and administrative salaries, postage, local phone, office and general supplies are normally treated as facilities and administrative (indirect) costs as defined in Section F6b of OMB Circular **A-21**. Costs usually included in the indirect cost rate cannot be charged to a sponsored project as a direct cost. However, costs normally charged as facilities and administrative (indirect) may be charged as direct in special situations.

Refer to the section, **Special Circumstances (indirect charged direct)**, for more information. Refer to **Appendix A** for a typical list of items normally charged as facilities and administrative (indirect) costs.

Unallowable Costs

In accordance with OMB Circulars **A-21** and **A-110**, the federal government will not reimburse universities for certain costs that it considers unallowable. These costs cannot be included in the development of the indirect cost rate, charged as a direct cost to sponsored projects, nor included in service center/departmental recharge rates. These circulars require the University to establish screens for potentially unallowable costs, and to certify that unallowable costs are excluded from the University's rates. Such costs include: Alumni activities, development and fund raising, entertainment, lobbying, defense or prosecution of criminal or civil proceedings, selling/marketing. Refer to **Appendix B**, A-21 Unallowable Costs for a complete list.

All A-21 unallowable costs must be charged to an appropriate object code, or to a unique account that clearly identifies through the account's function code that the account records A-21 unallowable expenditures. The University is responsible for establishing procedures to correctly identify and record any of the A-21 unallowables for both labor and nonlabor unallowable costs to ensure that unallowable costs are not charged directly to sponsored projects or included in indirect cost pools.

Special Circumstances (facilities and administrative costs charged direct)

Similar costs incurred in like circumstances must be consistently treated as either direct or indirect. Size, nature, and complexity of sponsored projects, although not the final determining factors, are

important considerations in determining circumstances where exceptions are justified. Due to the unique requirements of each sponsored project or institutional accounts that charge sponsored projects such as service centers, the existence of special circumstances must be evaluated on a case-by-case basis using the criteria outlined below. The principal investigator must determine if the following indirect-type costs are necessary for sponsored projects. If so, they must be documented and justified in the budget narrative at the proposal stage or during the term of an existing award when extenuating circumstances have arisen requiring indirect-type costs to be charged as direct costs. Office of Sponsored Programs will review the proposal budget narrative to verify that the request meets the criteria for an exception to the policy on indirect charging. If the sponsoring agency accepts the costs in the approved budget then it can be considered an appropriate direct cost. The Office of Grants Management will confirm at the point of actual expenditure that the conditions described at the application stage have been met.

Clerical and Administrative Personnel

Although it is recognized that there are differences in staffing among the various academic units, a core of clerical and administrative personnel exists within each department to support the various missions of the unit. These personnel provide a broad range of general support services, including secretarial assistance, the procurement of materials and services, accounting and bookkeeping, proposal preparation, payroll and human resource tasks. The cost of these activities are generally recovered through indirect cost rate recoveries. Therefore, the salaries of personnel engaged in providing this type of baseline departmental service cannot be normally charged as direct costs on sponsored projects.

However, clerical and administrative personnel may be considered as direct costs and appropriately charged to sponsored projects, or institutional accounts that charge sponsored projects such as service centers under the following circumstances:

- 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 which involve extensive data accumulations, analysis and entry, surveying, tabulation, cataloging, searching literature, and retrospective clinical records studies.
- Projects that require making travel and meeting arrangements for a large number 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 seagoing research vessels, radio astronomy projects, and other research field sites that are remote from the campus.

- Individual projects requiring project-specific database management, individualized graphics or manuscript preparation, human or animal protocol, IRB preparations and/or specific regulatory 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. Where direct charges for administrative and clerical salaries are made, care must be exercised to assume that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities.

APPENDIX A:

The following chart provides a summary for charging typical direct and indirect costs:

DIRECT	INDIRECT
<ul style="list-style-type: none"> • Salaries & Wages/Fringe Benefits: Faculty, technicians, scientists, research assistants, postdoctoral associates, or other technical and programmatic personnel who are necessary to meet the goals of the project • Scientific & Technical Equipment Computer costs (Software, supplies and services) • Long-Distance Telephone charges • Maintenance agreements related to scientific and technical equipment Materials (including non-capitalized equipment) • Participant Expenses (NSF, Army) • Supplies (Project Supplies) (items solely consumed by the project) • Services obtained: <ul style="list-style-type: none"> ○ Animal Care 	<ul style="list-style-type: none"> • Salaries & Wages/Fringe Benefits: Clerical and administrative positions such as fiscal officers, accountants, secretaries, directors, vice presidents, president, office personnel, executive assistants, and administrators • Memberships Subscriptions, library books, periodicals, etc. • Office Supplies Equipment (office and general) • Janitorial Services Photocopy (for general business use) • Postage Repair & Maintenance (buildings, ground, equipment, remodeling, etc.) • Sanitation services including hazardous waste

- Outside Consultant/Professional
- Internal Service Organization
- Sub-grants/subcontracts
- Subject costs
- Travel
- Tools, uniforms
- Conference fees
- Chemicals, glassware
- Photographic Supplies
- Consulting/lecturer costs
- Publication and Page costs
- Sub awards
- Telephone (recurring, installation and maintenance)
- Utilities
- Departmental Administration
- Student Services
- General Administration

APPENDIX B: A-21 UNALLOWABLE COSTS

Costs that are specifically designated as unallowable costs by OMB Circular A-21 include:

- advertising expenses except for employee and subject recruitment
- alcoholic beverages
- alumni activities
- automobiles for personal use
- bad debts
- commencement and convocation costs
- contingency provision costs
- certain defense and prosecution of criminal and civil proceedings
- donations and contributions
- entertainment and social activities
- fines and penalties
- goods and services for personal use
- housing and personal living expenses for officers of the institution
- insurance against defective work

- interest, fund raising and investment costs (excluding third party interest expense)
- lobbying costs
- malpractice insurance that does not involve human subjects
- membership in any civic or community organization, country club, social or dining club
- proposal costs (costs of preparing bids or proposals on potential federally sponsored projects, including the development of data to support the institution's proposal)
- public relations costs
- selling and marketing costs
- severance costs incurred in excess of the institutions normal policy
- student activity costs
- travel airfare costs in excess of standard coach fees