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DIRECT COSTS



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Objectives

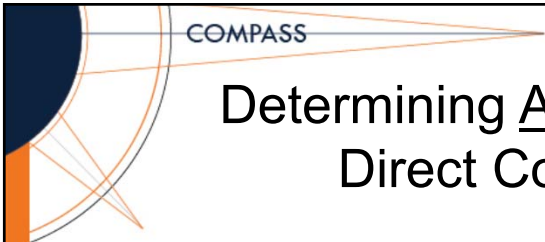
- Understand what direct costs are
- Understand direct costs are project specific
- Understand the need to include ALL allowable direct costs
- Understand the need to correctly calculate or verify project costs



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What are direct costs?

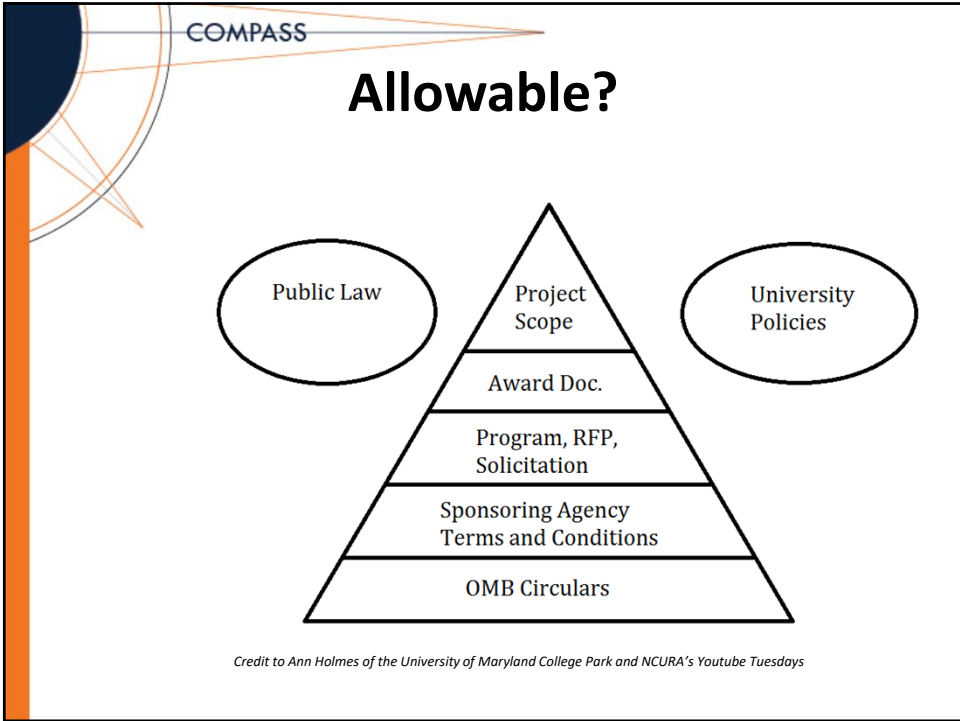
- Direct costs are costs that can be specifically or directly identified to a particular sponsored project with relative ease and a high degree of accuracy.
- Provide a direct benefit to the purpose of the project.
- Normal direct costs for one project may not be reasonable for another.



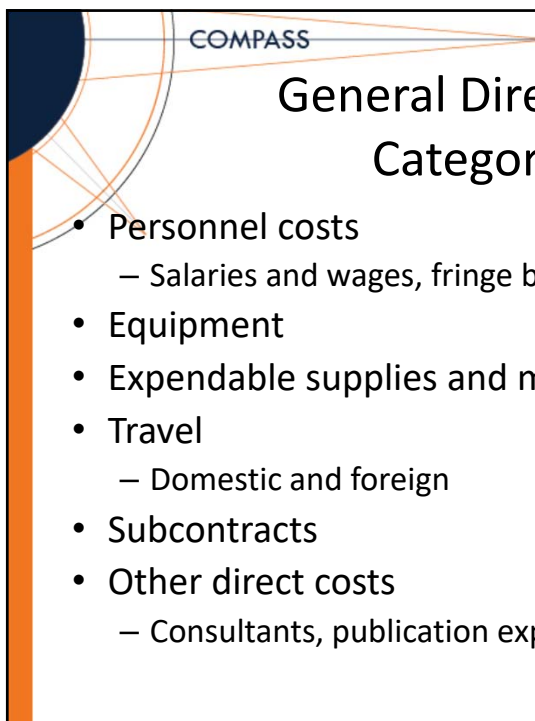
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Determining Allowable Direct Costs

- Costs must be:
 - **Reasonable:** A prudent business person would have purchased this item and paid this price.
 - **Allocable:** It was necessary to incur the cost to perform the scope of work and the cost can be assigned to the project on a reasonable (documented) basis with a high degree of accuracy.
 - **Consistently treated:** Like costs must be treated the same in like circumstances either direct or F&A costs.

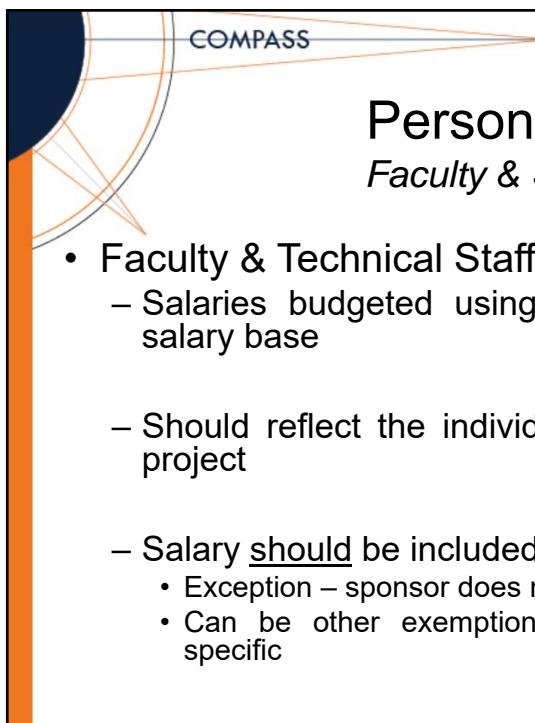


<https://www.youtube.com/watch?v=szF-zmCYEs>



General Direct Cost Categories


- Personnel costs
 - Salaries and wages, fringe benefits
- Equipment
- Expendable supplies and materials
- Travel
 - Domestic and foreign
- Subcontracts
- Other direct costs
 - Consultants, publication expenses, tuition, etc.



Personnel


Faculty & Staff

- Faculty & Technical Staff
 - Salaries budgeted using current or anticipated salary base
 - Should reflect the individual's total effort on the project
 - Salary should be included in proposed budgets
 - Exception – sponsor does not allow salaries or benefits
 - Can be other exemptions that are project/sponsor specific



Personnel *Faculty & Staff*

- Two options to budget faculty and staff time on project:
 - Months Committed – Committing specific number of months to work on project
 - Percentage of Time Committed – Committing specific percentage of time on a project




Personnel *Faculty & Staff*

Examples

Months Committed: faculty member will be committing three (3) months to work on a sponsored project, earns \$110,000 per year, and is on a 9-month appointment. How much should be budgeted?

Percentage of Time Committed: A research associate will be committing 30% of time to work on a sponsored project, earns \$45,000 per year, and is on a 12-month appointment. How much should be budgeted?

Non-Exempt staff: A technician will be committing 50% of time to work on a sponsored project, earns \$17.00 per hour. How much should be budgeted?




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Personnel

Faculty & Staff

- Important Things to Remember
 - Ideally, budget for salaries need to be included, unless exception exists
 - Amount of salary that can be charged may be capped by the sponsor (i.e. NIH)
 - Sponsors might have a max on how much time an individual can commit to a particular project
 - Colleges or departments might have certain guidelines on how much effort an individual can commit to a project
 - Auburn policies do not usually allow overtime or extra compensation on sponsored projects
 - If anticipated for non-exempt employees should be clearly stated and justified in the proposal



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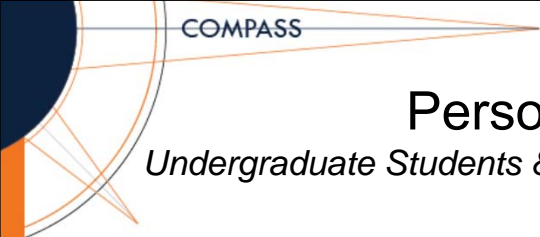
Personnel

Postdoctoral Fellows/Graduate Research Assistants

- Salaries should be based on:
 - College/School or department guidelines

OR

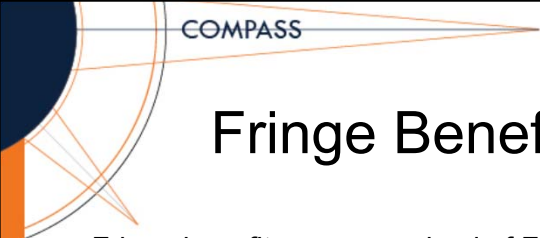
 - Previous projects with similar positions
- Salaries can also be 9 or 12 month
- Graduate students max work hours
 - 20 hours per week during academic year
 - 40 hours per week during summer months



Personnel

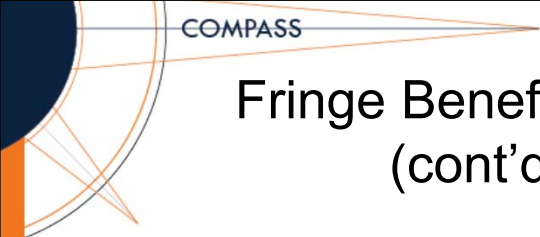
Undergraduate Students & Temporary Employees

- Students
 - Rates are based upon college or department
 - Minimum wage is: \$7.25 per hour
 - Budgeted under **Wages** in Banner
- Temporary Employees (TES)
 - Rates are based upon job title
 - Includes a service fee
 - Budgeted under **Other Operating** in Banner



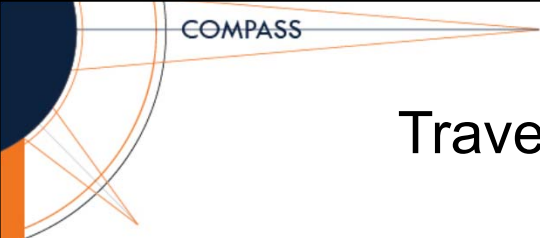
Fringe Benefit Rates

- Fringe benefits are comprised of FICA, retirement, group insurance, worker's compensation, unemployment compensation, other
- Charged as a percentage of salaries to cover benefits provided by the university
 - Calculated by applying the appropriate rate to the employee's salary
- **New Rates effective FY 2018:**
 - 31.10% - Full-Time
 - 12.20% - Part-Time
 - 4.1% - GRA
 - 15.46% TES Rate



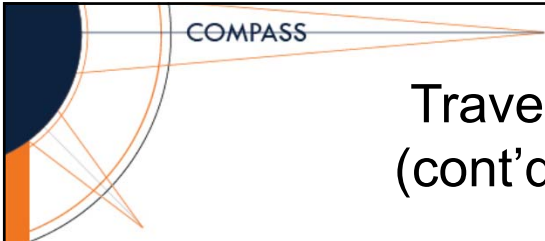
Fringe Benefit Rates (cont'd)

A faculty member will be committing three (3) months to work on a sponsored project, earns \$110,000 per year, and is on a 9-month appointment. How much should be budgeted for fringe benefits?



Travel

- Purpose, frequency, applicability to the project
- Project/sponsor allow travel on the project
- Readily identifiable to the sponsored project
- Provide a direct cost benefit to the project
 - Normally there will be effort
- Realistic based upon expected travel plans
 - Can use previous travel experiences for estimating



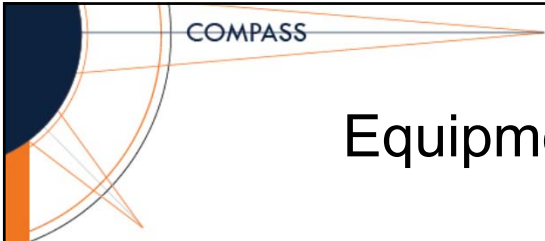
Travel (cont'd)

- Mileage, per diem rates, travel are calculated based upon the University policy
 - <https://sites.auburn.edu/admin/universypolicies/Policies/TravelPolicies.pdf>
- Allowable reimbursement: transportation, lodging, meals, registration, parking, etc.
- Unallowable reimbursement: entertainment, moving, recruitment, etc.



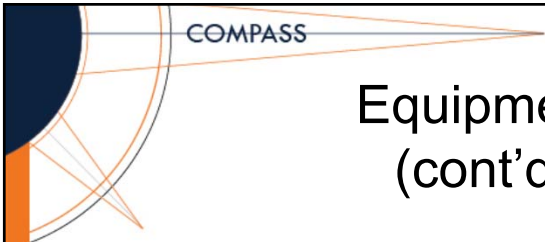
Materials & Supplies

- Materials and supplies needed to meet project objectives
 - Project-specific
- Include best estimate based on written or oral quotes and past purchasing experience



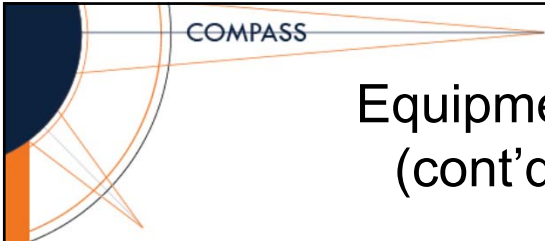
Equipment

- Equipment is defined as having a unit cost of \$5,000 or more and a useful life of one year or more
 - Both criteria must be met, if not should be budgeted as material/supplies
- Cost estimate should include: installation, accessories, attachments, shipping
- Describe the equipment and justify the need for it as it pertains to the scope of work




Equipment (cont'd)

- Property can be AU vested or retained by the government or sponsor
- Annually AU reports federally-owned equipment or equipment furnished by the government
 - AU Vested – equipment acquired under the award provided at closeout
 - Property management standards – AU must maintain records, available for government review, concerning property acquired with government funds



Equipment (cont'd)

- Fabricated equipment is defined as an item of equipment that is built or assembled in its original form from individual parts
 - Aggregate value of \$5,000 or more, service life is longer than one year
- Must be included in the scope of work and identified prior to acquisition
 - Performance, costs, functionality, value, expected ownership should be included

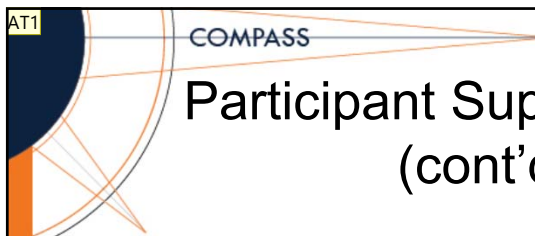


Participant Support Costs

2 CFR Part 200, Section 75

direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects.

The Uniform Guidance (2 CFR 200) requires prior approval of the Federal Agency in order to incur Participant Support Costs under federally sponsored awards. The Participant Support Costs must be incurred within the period of performance of the project and be specifically allowed by the sponsoring agency.



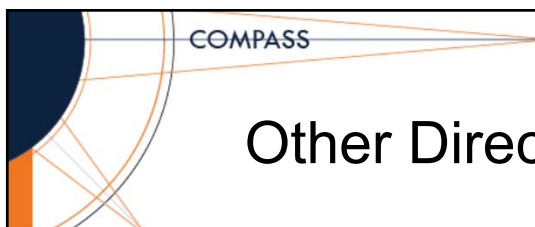
Participant Support Costs (cont'd)

Can consist of, but not limited to:

- Registration fees
- Travel allowances
- Stipends

Some Specifics:

- Are tracked separately from other funds.
- Usually are allowable on federal grants.
- Tend to be extremely project specific.
- Generally carry separate sponsor regulations from other direct costs.
- F&A may be unallowable on these cost but that is also generally sponsor specific.



Other Direct Costs

Any project specific item that does not fall under any of the other categories of direct costs.

- Professional Service Contracts/Consultants
- Conference or Workshop Fees/Food Expenses
- Animal and Animal Care Expenses
- Tuition
- Rental

Slide 23

AT1

Amy Thomas, 10/11/2017




Other Direct Costs (cont'd)

- Conference/Workshop Fees
 - Any conference or workshop must be relevant to the project and in some way relate to the outcome of the project.
 - All related expenses, including food, must be mandatory to the attendance/completion of the conference or workshop.




INVOLVING THIRD PARTIES IN A PROJECT

The more the merrier: Inter-institutional collaborations



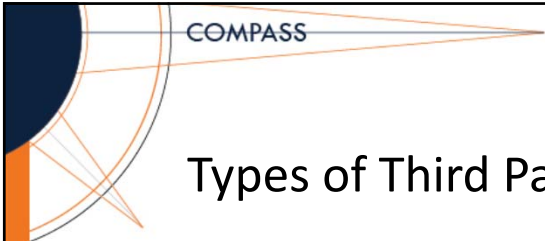
Distinguishing Roles

- Why is it important to determine the role of a third party as it relates to a sponsored project?
 - Consistency – budgeting, expensing and reporting
 - Appropriate application of F&A rate
 - Obligation to monitor subrecipients
 - Avoid submitting inaccurate invoices/false claims
 - Avoid consequences of non-compliance
 - Avoid negative audit findings



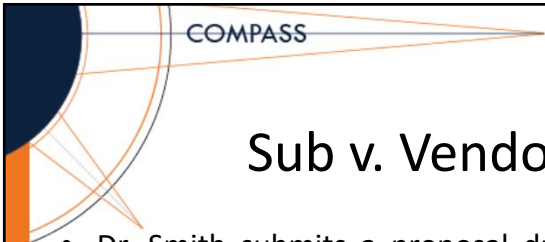
Distinguishing Roles

Vendors	Subrecipients/Subcontractors
<ul style="list-style-type: none"> • Entities that provide goods or services to many different customers in the course of normal business • Operate within a competitive environment • Not subject to federal compliance requirements applicable to the performance of work 	<ul style="list-style-type: none"> • Third parties that perform a substantive portion of the scope of work • Measurable performance requirements • Must comply with federal compliance requirements



Types of Third Party Agreements

Vendors	Subrecipients/Subcontractors
<ul style="list-style-type: none"> • Purchase order • Purchase agreement • Service agreement • Consulting agreement • License agreement • Normally handled by purchasing department 	<ul style="list-style-type: none"> • Subgrant or subagreement <ul style="list-style-type: none"> – Assistance mechanisms • Subcontracts <ul style="list-style-type: none"> – Contracts • Handled by Office of Sponsored Programs

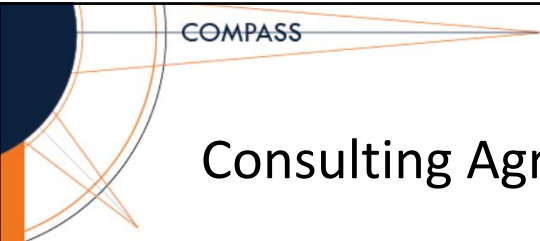


Sub v. Vendor Case Study

- Dr. Smith submits a proposal draft budget to OSP which contains a subaward to the University of Michigan Social Research Center for \$40,000. The budget justification notes that the purpose of the subaward is to fund the Center to conduct a survey which will produce data that is key to the research Dr. Smith plans to conduct.

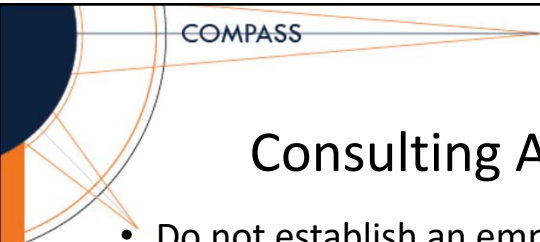
What questions should the preaward administrator ask Dr. Smith to determine if the funding for the Center should be treated as a subaward or vendor agreement?

Should the answers indicate that the arrangement is actually a vendor agreement, what changes and calculations need to be made to the draft budget?



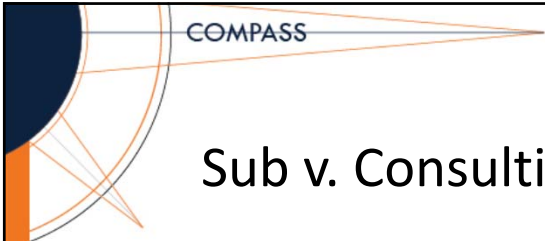
Consulting Agreements

- A third-party agreement for services
 - Cannot be performed by existing personnel
 - Highly specialized or technical
 - Urgent and/or temporary (short duration)
- Does not secure performance of a substantive portion of the scope of work
- Independent contractor/work-for-hire



Consulting Agreements

- Do not establish an employer/employee relationship – such a relationship implies for example:
 - Set work schedule and guaranteed pay/pay intervals
 - An institution's obligation to provide:
 - Work space
 - Facilities, supplies, and equipment to accomplish work
 - Training necessary to fulfill job responsibilities
 - Training on institutional policies (e.g., safety, harassment prevention, ethical standards and values, etc.)
- Consult institutional policy regarding employees acting as consultants



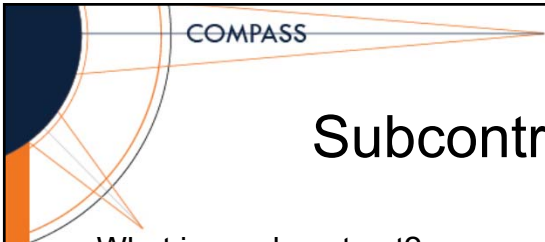
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Sub v. Consulting Case Study

- Dr. Jones is putting together a proposal for the National Science Foundation under a program that funds development of new evaluation tools for social psychology researchers. He insists that his four collaborators, hailing from four different universities across the country, will be functioning as consultants rather than as PIs of subaward.

What questions should a research administrator ask Dr. Jones?

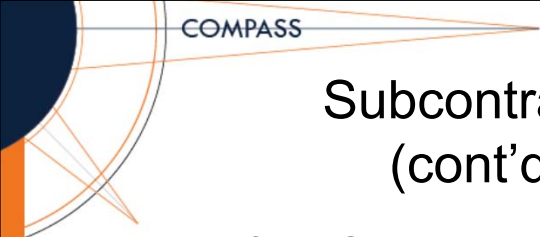
Should Dr. Jones remain certain that his colleagues will be consultants on the project, what information is needed to develop the budget?



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Subcontracts

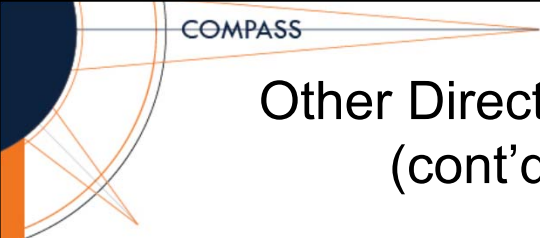
- What is a subcontract?
 - A document written under the authority of, and consistent with the terms and conditions of an award, that transfers a portion of the research or substantive effort of the prime award to another institution or organization.
- What are the basics needed for a subcontract?
 - Legal name of recipient(s), contacts' name, address, tax ID #, recipients scope of work, budget, justification, F&A Rate Agreement (if applicable) and letter of commitment.



Subcontracts (cont'd)

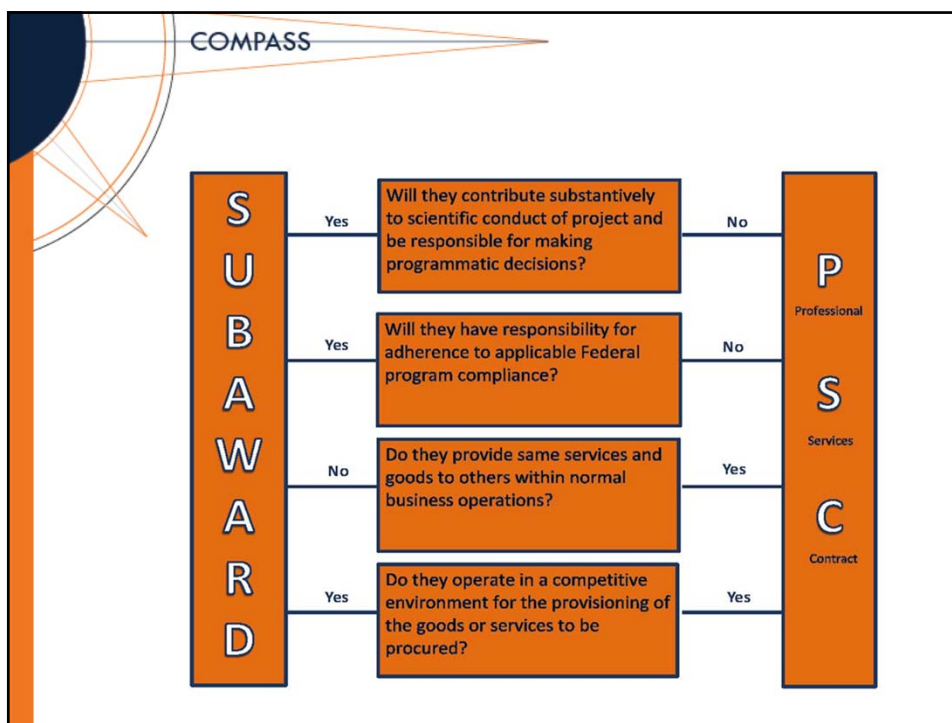
Budgeting for a Subcontract:

- Budget/costs on the subcontract must be in line with the same allowable cost standards and principles that AU has as the prime recipient.
- Ginger Phillabaum; Phone: (334)844-8961; Fax: (334)844-5953; phillgp@auburn.edu



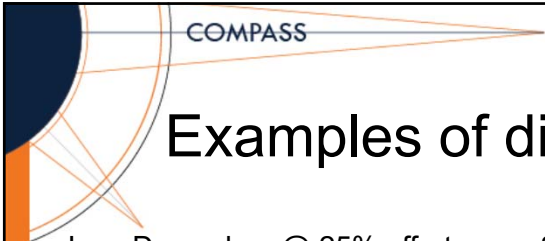
Other Direct Costs (cont'd)

- Professional Service Contract (PSC)
 - Can be used for all professional services with individuals who provide special knowledge or advice necessary for the project. The contractor is responsible for accomplishing the work called for in the contract and will not be supervised or controlled by the University.
 - EX: attorneys, auditors, architects, consultants, etc.
 - **NOT** intended to be used instead of a subcontract.



Other Direct Costs (cont'd)

- Tuition
 - Budgets for all proposals must include tuition support for projects that include stipend support for graduate assistants IF the funding agency allows tuition support as a budgeted item.
 - A tuition remission rate of either 10% or 40% of a graduate assistant's stipend amount will be used in lieu of actual full tuition.



Examples of direct costs

Jane Doe salary @ 25% effort (\$100,000/yr; 12 months)	\$25,000.00
Jane Doe benefits @ 32%	\$ 7,750.00
Travel to sites (1,000 miles @ 54 cents/mile)	\$ 540.00
Supplies/chemicals for project	\$ 3,000.00
Sample analysis	\$ 1,000.00
Adaptis chamber	\$15,775.00