

II. Other Direct Costs

A. Overview

A project budget is comprised of direct costs, i.e. salaries and other direct costs, and indirect costs. Other direct costs refer to expenditures that are allowed as a direct charge to a sponsored project and are specifically associated, or incident, to the project's performance. They can be directly assigned to the project with a high degree of accuracy and the expense benefits the project.

Indirect costs, on the other hand, are expenses that cannot be specifically identified with a particular project or activity.

Understanding these types of costs and the procedures in place to process them will ensure the successful fiscal management of a sponsored project.

Objectives:

In this chapter you will learn about:

- direct and indirect costs
- independent contractors, subrecipients, and FFATA
- participant support costs
- payments to human subjects
- tracking capital equipment purchases & fabricated equipment parts
- travel reimbursements

B. Direct and Indirect Costs

1. Administrative guidelines, in this case 2 CFR §200.402 Composition of Costs, tells us the cost of an agreement is comprised of the allowable direct cost (the charges that the PI approves, that are needed for the project, approved by the sponsor, and pass the allowability tests) plus the portion of RIT's overhead, the indirect costs of the institution.
2. Direct costs are specifically associated to the project's performance, meaning they can be directly assigned to the project, with a high degree of accuracy. We know that the expense benefits the project. Examples of a direct cost on a sponsored project include labor, materials, and travel. The salary of a person working on a specific project or equipment and materials purchased and specifically used on the project can be directly associated with the project.
3. Indirect costs are sometimes called Facilities and Administrative (F&A) costs or overhead. These costs include the cost of buildings, utilities, and other expenses necessary for the operation of the University. They cannot be specifically associated with the project activity because these costs benefit the whole department, not just the

project. Overhead expenses pay for the lights, heat, and central and departmental administrative costs.

- a. How does F&A get charged onto an award? F&A is automatically charged to a project each month during the Accounting closing process on object code 90345. It is based on the expenditures charged to the project that month and there will be no back up documentation for the charge.
- b. F&A cost rates are submitted by the University to the US Department of Health and Human Services (DHHS), RIT's cognizant federal agency, for approval. Rates are usually approved for a 3 year period.

C. Subrecipients, Independent Contractors, and FFATA

1. Often, a portion of the work on a sponsored project is completed by a third party or that third party provides a service that benefits the project. This third party may be a *subrecipient* or an *independent contractor*, each of whom have similarities, but have very distinct roles. The information in the table below summarizes the characteristics of both.

Subrecipients	Independent Contractors
“Collaborator”	“Contributor”
Must be an organization	Individual or organization
Integral contribution which generally lasts through the project	Short term expert advice or service
Almost always identified by name in prime award	Generally not named in prime proposal
Typically granted rights to project data	Typically does not receive rights to data
Must adhere to provided budget in accordance with Uniform Guidance	Reimbursed a fee for services and other expenses (e.g., travel)

- a. A subrecipient is a legal entity to which an award of financial assistance, a subaward, has been made under a (main) award from the main recipient when an integral portion of the work on a sponsored project is going to be completed by that legal entity. The subrecipient is accountable to the recipient for use of the funds. Per 2 CFR §200.331, the recipient is responsible for managing and monitoring each project, program, subaward, function, or activity supported by the award.
 - i. **2 CFR §200.308** requires sponsor approval before issuing a subaward under a federal award. Inclusion of the subaward agreement in the awarded budget proposal constitutes prior approval. SRS must request approval from the sponsor prior to issuance of a subaward if the subrecipient was not named in the prime proposal or a subrecipient was not anticipated.
 - ii. The following items are required for subawards:
 - Subaward Agreement – prepared by SRS

- Budget and Justification – requires PI approval
 - Scope of Work – requires PI approval
 - Description of work to be performed
 - Deliverables and due dates
 - Reporting expectations and due dates
- iii. SRS negotiates the agreement with the subrecipient. In conformance with CFR §200.331, SPA performs a risk assessment on the subrecipient. SPA reviews the draft agreement, the Subrecipient Financial Questionnaire, prior audit findings, and other factors as applicable to determine the subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward. The subrecipient is rated and monitored accordingly. Once the subaward has been signed, SPA creates an RIT purchase requisition for the subrecipient contract.
2. Subaward payments up to \$25,000 are assessed **facilities and administrative costs** (F&A). When a subaward fee is more than \$25,000, the amount in excess of \$25,000 is not subject to F&A costs.
- a. This is an example of a 24-digit account number for a subaward on a federal project in the College of Engineering
- Subaward payments up to \$25,000:
0 1 . 63150 . 75300 . 15 . 30000 . 00000
- Subaward payments over \$25,000:
0 1 . 63150 . 75350 . 15 . 30000 . 00000
- b. This is an example of how F & A is assessed on subrecipient fees. Here, RIT issues a subaward to Yale University for 3 years at \$35,000/year:
- Year 1 F&A: \$25,000 fee x 46.5% = \$11,625 charged to 75300
 - \$35,000 contract - \$25,000 limit = \$10,000, charged to 75350, is exempt from F&A
 - Year 2 \$35,000 fee is charged to 75350 and is exempt from F&A
 - Year 3 \$35,000 fee is charged to 75350 and is exempt from F&A
 - Total F&A on this subcontract = \$11,625
- c. When there are multiple subcontracts on one award, separate object codes will be established for each subcontract
- Use object codes 75300 – 75325 for contracts up to \$25,000
 - Use object codes 75350 – 75375 for contracts over \$25,000
3. Approval of subaward invoices by the principal investigator and SPA is required prior to payment by Accounts Payable.

- a. The principal investigator is responsible for the accuracy and appropriateness of the payment to the subrecipient and acceptance of the work performed. He/She must review and approve each subrecipient invoice before SPA will submit the invoice to Accounts Payable.
- b. SPA reviews each invoice for adherence to the agreement's terms and conditions and sends to Accounts Payable for processing.

Information about RIT's [current F&A rates](#) and the University's F&A distribution policy is available on the Controller's Office web page.

4. An **independent contractor** is an individual who follows an independent trade and offers their services to the public. To ensure that the individual is properly classified as an independent contractor (as opposed to an employee), he/she must meet IRS guidelines for Independent Contractors, (IC) status.
 - a. Prior to contracting or renewing a contract for independent contractor (individual) services, the requesting department must complete the 'Pre-Approval to Engage Independent Contractor Services' form, a completed W-9 form, and a New Supplier Setup Form and forward to Accounts Payable for processing.
 - b. Accounts Payable will respond to your pre-approval request within five business days.
 - c. Once you receive approval from Accounts Payable, complete the Independent Contractor Contract.
 - i. If the engagement is \$1,500 or more, complete an Oracle purchase requisition prior to completing the Independent Contractor Contract. A purchase order is required and the contract must be signed by the requesting department.
 - ii. If the engagement is \$5,000 or more, contact Procurement for specific information regarding competitive bidding requirements.
 - d. When the invoice is received from the independent contractor:
 - i. If the engagement is less than \$1,500, complete an invoice payment form and submit to Accounts Payable with the invoice
 - ii. If the engagement is \$1,500 or more, forward the invoice to Accounts Payable for processing. Please indicate the purchase order number on the invoice. Do not complete an invoice payment form.
 - e. RIT employees cannot act as an Independent Contractor.

- f. Typically, faculty are not permitted to earn additional pay for work on federal projects. In addition, hourly paid employees are paid for the additional hours worked via the regular timekeeping/payroll process. Add payments are not permitted for additional hours worked.

For more information, see the Controller's web page
<http://finweb.rit.edu/controller/accounting/workerstatus.html>

5. The Federal Funding Accountability and Transparency Act (*FFATA*) is a law that requires information disclosure of entities receiving Federal funding through Federal awards such as Federal contracts and their sub-contracts and Federal grants and their sub-grants. The intent of this Act is to empower every American with the ability to hold the government accountable for each spending decision, the end result being the reduction of wasteful spending in government.
 - a. FFATA Reporting Requirements for Grants
 - i. Only required to report on traditional subawards
 - ii. Must be a Tier 1 award and the main and subawards must both be for \$25,000 or more and have been executed after 10/1/10
 - iii. Completed Subrecipient Financial Questionnaire
 - iv. Monthly review and upload to FSRs.gov, the FFATA Subaward Reporting System website
 - b. FFATA Reporting Requirements for Contracts
 - i. Governed under Federal Acquisition Regulations (FAR), which specifically governs the pricing of Federal fixed price contracts
 - ii. Required to report on traditional subawards *and* vendors/suppliers
 - iii. Must be a Tier 1 award and the main award must be for \$25,000 or more and must have been executed after 3/1/11
 - iv. The cumulative subaward payments must be for \$25,000 or more and the cumulative subaward payments must have been obligated after 3/1/11
 - v. Completed FFATA Procurement Reporting Form for those vendors receiving \$25,000 or more (cumulatively) over the life of the award. (This is not required for a one-time-only purchase from a vendor.)
 - vi. Completed Subrecipient Financial Questionnaire
 - vii. Monthly review and upload to FSRs.gov, the FFATA Subaward Reporting System website
 - c. A Federal contract that is Tier 1 and \$25,000 or more is flagged in COEUS. The PI is notified in the PI letter that the FFATA clause has been invoked. FFATA language will also appear on the Term & Conditions summary in the PIM handout that SRS prepares.

D. Participant Support Costs

1. Participant support costs are paid to, or on behalf of, project participants in Research Experience for Undergraduates (REUs) or for participant or trainee scholarships, summer fellowships, or conference, symposia and workshop attendance when there is a category for participant support costs in the award budget. Types of charges included in *participant support costs* are:
 - Registration and tuition fees
 - Travel
 - Subsistence allowances (to defray reasonable cost of personal maintenance)
 - Manuals and supplies to be used by the participants
 - Non-compensatory stipends
2. Additional information regarding participant support costs includes the following:
 - They are not allowed for support of RIT employees
 - They are exempt from F & A
 - They are not allowed to be re-budgeted into other direct cost categories without prior sponsor approval
 - RIT is required to return any unexpended funds to the sponsor
 - Tuition remission for students is not considered participant support costs
3. These costs are tracked under a separate P account number and are assigned to the project number range P0000-P9999. The last 4 digits on these accounts will match the last 4 digits of the grant funded project number. For example, the federal project 31234 would have a participant support account number of P1234.
4. Participant must complete a Participant Agreement and Payment Request Form which provides general information and program-specific requirements to participants receiving support payments. The form documents the participant's understanding and agreement with the participation requirements and is also used to process participant support stipend payments and housing and meal credits.

The [Participant Agreement and Payment Request Form](#) and [detailed instructions](#) are available on the Controller's web page.

E. Payments to Human Subjects

1. Individuals who participate in a research grant as approved by the RIT Institutional Review Board (IRB) are referred to as human subjects. The IRB ensures that risks to *human subjects* are minimized.
2. Payments to human subjects are not considered wages but are taxable to the recipient.
 - a. Requests for check payments to non-employees are processed through Accounts Payable using an Invoice Payment Form and must be accompanied by a completed W-9.

- b. Payments to an RIT employee are processed through Payroll.
 - c. Cash advances may be requested and payments can be made to participants in cash when the amount is less than \$50 per participant.
 - d. 'Tiger Bucks' may be used in lieu of cash.
3. Cash advances for human subject payments require approval by SPA before they will be processed by Accounts Payable.
- a. Complete an Invoice Payment Form and forward the form to SPA for approval. If approved, SPA will forward the form to the Accounts Payable Office for processing.
 - b. Accounts Payable will process the request and issue the payment as a cash advance (typically via direct deposit) to the principal investigator or employee conducting the research project.
 - c. Here's an example of a 24-digit account number for a cash advance for human subject payments on a federal project in the College of Engineering

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- d. Within 90 days of receiving the advance payment, a full accounting of how the funds were used is due to SPA. Complete a 'Payment Made to Human Subject – Detail Report' form to collect the following required information: name of the recipient (i.e., human subject), a completed W-9 Form for each participant, the date of disbursement, the signature of the participant, along with a copy of the Deposit ID form to document the deposit to Student Financial Services (SFS) of any unused funds.

Additional information about the IRB and Protecting Human Subjects is available on the SRS website: <http://www.rit.edu/research/hsro>

F. Capital Equipment

1. **Capital equipment** is tangible property with a useful life of more than one year and an acquisition cost of at least \$5,000 (including freight and installation charges.). There are two types of capital equipment:
 - a. **Special purpose equipment:** used only for research, medical, scientific, or other technical activities- examples include microscopes, x-ray machines, surgical instruments, spectrometers
 - b. **General purpose equipment:** not limited to research, medical, scientific or other technical activities- examples include office equipment and furnishings, modular offices, telephone networks, information technology equipment, reproduction and

printing equipment; is unallowable as direct cost, except where approved in advance by the sponsor

- c. Equipment purchased with funds provided under a sponsored agreement should benefit the project for a significant amount of the project duration, unless otherwise approved by the sponsor.
- d. Equipment purchases of \$5,000 or more are purchased on a purchase order and added automatically to the Fixed Asset system. Capital equipment is recorded as an asset on the general ledger using object code 16200.
- e. RIT capitalizes software having a cost of \$100,000 or more.
- f. Property Control will provide a tag number to be affixed to the equipment for inventory purposes.
- g. Items not considered to be capital equipment include:
 - Equipment and furniture with a per unit cost less than \$5,000
 - Equipment maintenance and repairs
 - Warranties for capital equipment
 - Equipment rentals & leases
 - Licenses & permits
 - Supplies
7. All parts of a computer, including the CPU, monitor, keyboard, docking station, etc., are considered to be one piece of equipment. Additional memory and extra drives, when purchased at the same time as the computer, are capitalized.
8. Printers purchased at the same time as a computer (with a unit cost < \$5,000) are NOT capitalized.

Additional information about accounting for capital equipment can be found at the Controller's Office web page: <http://finweb.rit.edu/controller/property/>

G. Fabricated Equipment Charged to Grants or Contracts

1. ***Fabricated equipment*** is tangible property with a useful life of more than one year where the combined cost of component parts is \geq \$5,000.
2. The Property Control Office will notify SPA when the request to fabricate equipment on the grant has been approved by accounting. Property Control will then enable the appropriate object code for the grant.
3. Purchases of component parts to fabricate capital equipment are initially charged to object code 16250 (fabricated equipment). This ensures that F&A is not assessed on the

individual component parts. It is the responsibility of the PI to maintain all documentation of costs of component parts.

- a. Purchases of component parts made with a procurement card cannot be directly charged to object code 16250. In these cases, items can be charged to an object code dedicated to supply purchases such as 73006- Supplies - General - F.
- b. After the transactions post to the supplies object code, please forward a request to SPA to move the charges for the component parts to object code 16250. The request must be accompanied by a summary of the purchases charged to the supplies object code and detailed receipts.

The Fabrication Request Form is located on the Controller's web page:
<http://finweb.rit.edu/controller/property/docs/equipmentfabricationpolicy.pdf>

4. When the equipment is complete, the PI notifies Property Control. Property Control will record the equipment in the Fixed Asset system and then provide a tag number to affix to the equipment for inventory purposes.

H. Travel Reimbursement for Grants and Contracts

Domestic and foreign travel-related expenses can be charged to a sponsored agreement if there is a direct benefit to that agreement.

1. Travel charged to a sponsored project should be submitted to accounts payable via an Online Travel Expense Report (TER). Information related to TERs can be found in RIT's Travel Policies & Procedures on the Controller's Office Website. Note: In order for travel to be reimbursed on a non-taxable basis, employees must complete and submit their online TER no later than 60 days from the last day of the trip.
 - a. Nonrefundable airline tickets should not be charged to a grant if the trip is cancelled. If the trip is cancelled, there is no benefit to the project and the cost should be absorbed by the department operating account.
 - b. Alcoholic beverages cannot be charged to any grants or contracts.
 - c. With approval of the department head, alcohol expenses may be charged to the department's operating account on the "government non-reimbursable" object code 79050.
3. Foreign travel requires additional external and internal reviews and approvals prior to charging the cost to a sponsored agreement.
 - a. Prior approval from the sponsor is required for foreign travel unless identified in the proposal or incorporated as part of the award agreement. If sponsor approval is not evident in the sponsored agreement and/or budget, SRS must be contacted to obtain sponsor approval prior to making any foreign travel arrangements.
 - b. In compliance with the *Fly America/Open Skies Act*, all international air travel on federally-funded projects must be on a U.S. air carrier. There are limited

exceptions. Contact your SPA representative prior to making any overseas travel arrangements with a foreign air carrier.

- c. Upon return from an overseas trip, complete an online TER..
4. RIT travel policies and procedures apply to all travel, regardless of the funding source (i.e., a sponsored project or other Institute funds). Sponsor guidelines for travel reimbursement may be more restrictive than RIT's policies. When that occurs, reimbursement will adhere to the sponsor guidelines. When RIT's policy is more restrictive than the sponsor guidelines, RIT's policy will be applied to the reimbursement.

Detailed travel policy and procedure information, including the Travel Expense Report, is available on the Controller's Office web page:
<http://finweb.rit.edu/controller/travel/travelpoliciesandprocedures.html>

I. Meals and Hospitality

1. Two federal agencies clarified their positions on charging *meals and hospitality* to federal awards.
 - a. The National Science Foundation
 - i. Meal costs outside of travel are entertainment and are not allowed
 - ii. Meals must be an integral and necessary part of conference to be chargeable (e.g. working meals where business is transacted)
 - iii. Meals for PI and sponsor's technical staff during meetings to discuss programmatic aspects of the project are disallowed
 - b. The Department of Justice
 - i. New Contracts and Agreements (post 10/1/2011)
No new funding can be used to purchase food and/or beverages for any meeting, conference, training, or other event. Meal costs outside of travel are entertainment and are not allowed
 - ii. Existing Contracts and Agreements
Grantees that have already contracted to provide such services should renegotiate such contracts to avoid these expenditures.

NOTE: Definitions for each of the key words mentioned throughout this document can be found in the [Glossary](#) on the Sponsored Programs Accounting website.