To: Deans, Directors, Chairs, Faculty, and Administrative Officers

Subject: Consistent Budgeting and Costing Practices in Contract and Grant Proposals

Consistency in budgeting and costing practices across the campus is important to ensure that the campus is complying with federal regulations and to minimize the possibility of audit disallowances. Yet, as evidenced by recent questions from the campus research community, there appears to be some confusion regarding what can and cannot be included in proposal budgets. Given these inquiries, I am writing to provide some general guidance.

There seem to be three areas where clarification would be useful. They are: 1) making distinctions between direct and indirect costs; 2) determining whether there are any costs that can be charged either as direct or indirect costs in applications to the federal government; and 3) understanding how budgets in proposals to governmental agencies differ from applications submitted to other sponsors.

What are the differences between direct and indirect costs?

Simply put, expenses that can be identified specifically with a particular project, that will directly benefit that project, and that are allowable under Federal Cost Principles for Educational Institutions (OMB Circular A-21) should generally be incorporated into proposal budgets as direct costs.

In contrast, expenses that cannot be readily and directly linked with individual projects (e.g., general departmental administration, central administration, building and equipment depreciation, operation and maintenance of plant, utilities, library costs, etc.) fall into the indirect cost category. These expenses are pooled for the campus as a whole, converted into a series of rates that are approved by the federal government, and then applied to individual projects as a percentage of direct costs. Previously referred to as indirect costs, they are now known as Facilities and Administrative (F&A) costs.

Whether direct or indirect costs, it is important to understand that there are some expenses that may never be charged to federal contracts and grants. This is true whether funds are provided to UCLA directly by the federal government or channeled through another organization. A list of these unallowable costs can be found in OMB Circular A-21, Section J available at: http://www.whitehouse.gov/omb/circulars/a021/a021.html or, in the UCLA Costing Policy, Chapter 4 (Allowable vs. Unallowable Costs) available on the Extramural Fund Management website at: http://www.efm.ucla.edu/costpol.htm.

In applying for federal funds, can costs be budgeted as direct costs in some cases and indirect costs in other instances?

Generally not, OMB Circular A-21 advises that with few exceptions, institutions must consistently handle costs either as direct or indirect. The primary exceptions are general administrative and clerical expenses, and general supply, mail and telephone costs. These kinds of expenses are normally included in the institution’s indirect cost base and therefore typically not included in direct cost budgets.

Under certain exceptional circumstances however, general administrative and clerical expenses may be allowable as direct cost expenses on federally funded projects. Unusually large and complex projects, studies conducted in remote locations, unusual projects that involve managing teams of investigators, program projects, survey research, organization of conferences or seminars, or projects that involve extensive data accumulation, analysis and entry, may require extensive administrative
support, significantly greater than the routine level provided by departmental or school-level administrative and clerical staff. In instances such as these, charging some administrative and clerical expenses to the study may be justified.

When justified, expenses such as these should be included in proposal budgets and the reason for their inclusion explained clearly and thoroughly. Administrative and clerical expenses should be shown as personnel and benefit (e.g. payroll) expenses for the individuals involved, rather than as an allocation or a recharge of pooled costs. Occasionally, investigators may want to rebudget within an ongoing award to incur expenses of these kinds that were not included in the proposal budget. In those cases, they should confer with appropriate Office of Research Administration (ORA) staff before such costs are incurred to determine whether the expenditures are justified and if so, to determine what kind of documentation is necessary and whether agency approval is required.

Can costs that are not allowable as direct costs by federal government sponsors be included in proposals to non-federal sponsors?

Generally yes. The general administrative and clerical expenses, general supply, mail and telephone costs not typically allowable as direct costs in federally funded studies, are often allowable as direct costs in many proposals submitted to non-federal governmental agencies or non-profit and for-profit organizations. The exceptions are instances in which federal monies are being channeled to the University through the non-federal organization, and cases in which the sponsor specifically prohibits them. Absent these circumstances, expenses such as general administrative and clerical costs should be included as direct cost line items to the extent that they are clearly linked with, and will directly benefit, the project.

I encourage you to contact ORA staff if you have questions about budget preparation or costing policy. They are happy to answer your questions.

Sincerely,

[Signature]

Roberto Peccei
Vice Chancellor for Research