

# Direct Charging to Sponsored Programs in Like and Unlike Circumstances

## Introduction

This procedural statement governs the consistent treatment of the allocation of direct costs and indirect (F&A) costs charged to Federal and non-Federal grants, contracts, and other sponsored programs. The regulations for determining costs charged to federally sponsored programs at educational institutions are set forth in the U.S. Office of Management and Budget's Uniform Guidance [2 CFR §200.400](#). This concept is reinforced and emphasized in the Cost Accounting Standards Board's Cost Accounting Standards (CAS), particularly number [502](#).

## Definitions

CAS 502 ([48 CFR 9905.502-40](#)) specifically says:

*All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective.*

**Direct Costs** are defined by [2 CFR 200.413\(a\)](#) as:

*Those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.*

**Indirect (F&A) Costs** are defined by [2 CFR 200.56](#) as:

*Costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.*

*In [2 CFR 200.414\(a\)](#) “Facilities” is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses.*

*“Administration” is defined as general administration and general expenses such as the director’s office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of “Facilities”.*

## **Application**

For any cost to be direct charged to a sponsored program, it must meet **all** the following criteria:

- Be allowable under university policy and procedures
- Be associated with and directly benefit the objective of the program being charged
- All costs must be proportionate to their level of use on that program

This is true for both federally funded and non-Federal awards, and whether or not they are costs for situations that are considered to be either like or unlike circumstances.

## **Like Circumstances Applicable to Federal Awards**

**[CAS 502](#) requires that costs charged to Federal awards need to follow a university’s normal treatment of such costs across all units of the university, considered like circumstances.**

The following are examples of costs in like circumstances:

- Fringe benefit costs can be directly associated with payroll costs of all employees across the university and can therefore be tied to a particular cost objective with a high degree of accuracy. These are considered direct costs in like circumstances.

- General telephone and internet service is paid by the university for use across the campus. The cost of any general use of this service by a particular program or cost objective could not be easily calculated with great accuracy, therefore these are considered indirect (F&A) costs in like circumstances.

## **Unlike Circumstances Applicable to Federal Awards**

In rare circumstances when certain criteria are met, [CAS 502](#) contains an exception to the basic rules that allows for a cost that would normally be treated as an indirect cost to instead be direct charged to a federal award. An unlike circumstance may exist when an activity or the use of a cost item is substantively greater in amount or different in purpose than is typical.

The criteria needed to justify such exceptions include:

- The nature of the work, unique situation, or programmatic purpose creates an unlike circumstance
- The cost must be specifically associated with the sponsored program with a high degree of accuracy
- The cost must also meet all the general criteria for a cost to be direct charged to a sponsored program (allowable, reasonable, allocable and adequately documented)

On occasion, a Federal sponsor specifically requires a direct cost that would typically be considered an F & A cost. This would also be considered an unlike circumstance. In order to substantiate the exception, documentation must contain a description of the unique situation that creates the unlike circumstance.

For example: the program is supporting a 3-month field program located at a remote camp that is several hours from a population center by air. Certain office supplies normally considered to be indirect (F&A) costs must be purchased by the program for use at the base camp as they are otherwise unavailable. The cost will also need to be adequately documented at the time of purchase.

The following are examples to illustrate when a situation may or may not meet the criteria listed above.

1. A department has a system of tracking copy machine usage and can identify copies relating to a specific sponsored program. The copies made were for routine administration of the sponsored program, like copies of correspondence and progress reports. While this example does meet the criteria that the cost can be specifically associated with the sponsored program, with a high degree of accuracy, it does not meet the standard of an unlike circumstance. University of Arkansas considers routine copies such as these to be an indirect cost and there is nothing unique about the situation to justify direct charging the copies to the sponsored program. However, if the sponsored program requires a large number of surveys in order to complete the scope of work, this does create an unlike circumstance. If the department used their tracking system mentioned above in this situation, the cost of the copies would meet the criteria in order to be direct charged.
2. If the department had a method to track actual postage used to mail the surveys, the postage cost could be direct charged because it meets the criteria of an unlike circumstance and is specifically associated with the sponsored program. However, if the postage was incurred for routine activities such as correspondence or progress reports, the postage cost would not meet the standard of an unlike circumstance and should not be direct charged.

## **Unlike Circumstances Applicable to Non-Federal Awards**

Non-Federal programs at University of Arkansas must follow the same policies and procedures Federal awards use for budgeting, justifying, expending, and documenting costs to their programs. However, for non-Federal awards there is flexibility in the type of costs that can be direct charged in unlike circumstances. University of Arkansas defines unlike circumstances in this context as the following situations.

1. Non-Federal awards funded with non-federal dollars that limit the indirect cost rate.
  - This lower indirect cost rate may not sufficiently cover the university's overhead expenses. Therefore, direct charging of costs that are normally treated as indirect (F&A) more accurately reimburses the university for their

use on the program and are allowable as direct costs.

2. Awards from for-profit entities that are funded by non-federal dollars.

- Proposals submitted to for-profit entities (for programs that are not federal flow-through) can budget for and negotiate an F & A rate that exceeds University of Arkansas federally approved F & A rate but should not be less than the approved rate.
- Programs with these entities can also charge faculty salary rates that exceed the standard Institutional Base Salary (IBS) rate. The excess amount is considered separate from the IBS and its payment to the faculty member must follow University of Arkansas procedures.
- Direct charging of costs that are normally treated as indirect (F&A) is allowable for their use on the program.