



OFFICE OF SPONSORED PROGRAMS

Charles R. Drew University of Medicine and Science

Guidance on Direct Costs versus Facilities & Administrative (Indirect) Costs

This guidance has been affected by the OMB Uniform Guidance (UG), [PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS](#), which supersedes requirements from OMB Circulars including A-21, A-110 and A-133 and will be applied consistently to all federal sponsored projects.

Direct costs are expenditures 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.

Conversely, indirect costs are those that are incurred for common or joint objectives and therefore cannot be directly associated with a particular sponsored project; however, they contribute to the ability of the University to support research projects and programs. Generally, indirect costs are derived as a consequence of providing the research space and the corresponding administration of these activities, not from the actual performance of the activities under the sponsored agreement. Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards.

Consistent treatment of expenditures is a basic cost accounting principle and is specifically required by the Office of Management and Budget ("OMB") as part of 2 CFR 200. The Uniform Grant Guidance requires similar costs to be charged to federally sponsored agreements in a consistent manner. Below are some examples of direct and indirect costs.

1. Examples of Direct Costs

- Employee Compensation (including benefits)
- Cost of materials necessary for the project
- Equipment necessary for the project

2. Examples of Indirect Costs

- Depreciation
- General and Administrative expenses, including general office supplies and equipment
- Operation and Maintenance expenses
- Sponsored Projects Administration expenses
- Library expenses
- Departmental Administration expenses
- Student Administration expenses

3. Indirect Cost Recoveries

- Indirect cost recoveries from awards sponsored by the federal government are governed by OMB 2 CFR 200, Appendix III¹. This circular establishes a formula by which an Indirect Cost Recovery rate, also known as the Facilities and Administration rate ("F&A"), is calculated. The circular also establishes which costs are allowable versus unallowable.
- The indirect cost rate negotiated with the U.S. Department of Health and Human Services, the University's cognizant agency, reflects the rate of reimbursement for facilities and administration costs incurred as a part of conducting research. For current rates, please see the University's approved F&A rate agreement.
- Indirect cost is returned to the University as a percent of each direct-cost dollar spent on federally funded research projects using the rate currently in effect.
- The indirect cost rate is also applied to non-federal awards, but indirect cost recovery may be limited in the case of not-for-profit sponsors with a published policy to allow a lower F&A rate than the federally approved rate. In these cases, the not-for-profit sponsor's F&A rate and base will be applied.