



Direct versus Indirect Costs

This policy has been affected by the federal Uniform Guidance (2 CFR 200) regulations and will be applied consistently to all University awards.

POLICY STATEMENT

Direct costs are expenditures that can be identified specifically with a particular sponsored project or that can be directly assigned to such activities 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.

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](#). This circular 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

- a. Employee Compensation (including benefits)
- b. Cost of materials necessary for the project
- c. Equipment necessary for the project

2. Examples of Indirect Costs

- a. Depreciation
- b. General and Administrative expenses, including general office supplies and equipment
- c. Operation and Maintenance expenses
- d. Sponsored Projects Administration expenses
- e. Library expenses
- f. Departmental Administration expenses
- g. Student Administration expenses

3. Indirect Cost Recoveries

- a. Indirect cost recoveries (“ICR”) from awards sponsored by the federal government are governed by OMB 2 CFR 200, Appendix III. This circular establishes a formula by which an ICR rate, also known as the Facilities and Administration rate (“F&A”), is calculated. The circular also establishes which costs are allowable versus unallowable.
- b. 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](#).

- c. 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.
- d. 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.