

II. A (2). Direct Charging Policy

Direct & Indirect Charging of Sponsored Projects: Policy & Operational Procedure

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Last Revised: August 2014 to take effect with new NSF grant budget and new ACP accounting procedures on October 1, 2014.

The previous policy applies until October 1, 2014.

Policy Statement

It is the policy of the Aspen Center for Physics (ACP or the Center) to charge direct and indirect costs to sponsored projects in a manner consistent with Office of Management & Budget (OMB) Circular A-122, sponsor policies, and award terms and conditions. This Policy and Operational Procedure ensures that ACP's practices for the charging of costs to sponsored projects maintain compliance with the Federal cost principles.

Reason for Policy

As a recipient of federal funding, ACP is subject to numerous financial accounting and reporting obligations, including but not limited to those set forth in OMB Circular A-122. Failure to adhere to the provisions of this Policy and Operational Procedure may result in the Center's sponsors, or other government agencies, disallowing costs or imposing other sanctions.

Who Should Know This Policy

- Principal Investigators
 - Administrative Staff
 - Winter Conference/Summer Workshop Organizers
 - Proposal Development Committee
 - Officers
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- Trustees
 - General Members
 - Other: _____
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Contacts

Subject	Contact
Policy Questions	Corporate Secretary
Finance Procedure Questions	Administrative Vice President Finance Manager

Applicable ACP Policies

- Participant Support Costs: Policy & Operational Procedure
 - Allowable Costs on Sponsored Projects: Policy & Operational Procedure
 - Sponsored Project Program Income: Policy & Operational Procedure
 - Chart of Accounts Definitions: Operational Guidance
 - Time and Effort Policy
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Direct & Indirect Charging Operations at ACP

Introduction and Definition

This Policy and Operational Procedure defines how costs at ACP should be charged to sponsored projects. For purposes of this Policy and Operational Procedure, ACP defines a sponsored project as any grant, contract, or other agreement between ACP and the federal government or other grantor agency.

The Center assigns to each sponsored project a dedicated Fund number in its financial system to track revenue and expenses for these separate cost objectives. This allows ACP to appropriately manage unique requirements of different sponsors and monitor compliance with sponsor requirements.



ACP defines Programs as the four functions of the Center, each of which has its own goals. These functions are:

Programs at ACP and Their Associated Funds

The Aspen Center for Physics comprises four Programs:

- Program #1 – Workshops and Conferences on Physics
- Program #2 – Outside Conferences (Rental of space)
- Program #3 – Public Outreach
- Program #4 – Fundraising

The ACP bookkeeping system comprises several funds based on funding source, which benefit the four Programs.

Program #1

- NSF Funds (10-29)
- Winter Conference Funds (30-39)
- Donor-Restricted Funds
 - Block Fund (Scholarship for a weekly early-career physicist) (40)
 - Simons Fund (Funds summer physicists from developing countries) (42)
 - Trustee Fund (Funds summer early-career physicists) (43)
 - Daycare Fund (Nascent Fund to assist families in the future) (45)
 - Open Fund (46)
 - Shaham Fund (Funds summer early-career physicists) (47)
 - Ramond Fund (Funds three summer families) (48)

Program #2

- General Fund (90)

Program #3

- NSF Funds (10-29)
- DeWolf Foundation Fund (Funds winter public lectures) (41)

Program #4

- Board-Designated Reserve Fund (55)
- General Fund (90)

Direct & Facilities and Administrative Costs

Direct costs are those costs that can be identified specifically with a particular sponsored project or that can be directly assigned to an activity relatively easily with a high degree of accuracy. At ACP, the most common types of Direct Costs on sponsored projects include:



- Participant Support
- Supplies (specifically allocable to the program or project with a high degree of accuracy)
- Public Lecture Costs
- Staff time directly chargeable to one of ACP's programs or projects*
- Subscriptions/Periodicals:
- Photocopying for a specific ACP program or project

*Due to the nature of the ACP staff, every staff member provides direct service to each ACP Program. Direct functions for Program #1 include arranging housing, providing services during sessions such as taking payments, arranging meeting space, updating participants on events, preparing and cleaning up meeting spaces, helping participants with specific needs, fielding phone calls for participants' requests and a myriad of other direct time. Program #2 requires very little time and effort on the part of the staff. Direct time would include preparing contracts, recording payments and opening doors for outside users. Program #3 requires mostly direct time in contacting speakers, notifying the public, interviewing speakers, preparing programs and going follow-up including video releases and providing access to taped lectures. Program #4 requires direct time to enhance physicists' stays in handling sales of espresso, coke, t-shirts and lift tickets, which raises enough funds to pay for the colloquium wine. A very small amount of time is spent directly maintaining or accounting for the Board-Designated Reserve Fund.

Facilities and Administrative Costs are those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. After direct costs have been determined and assigned directly to awards or other work as appropriate, F&A costs are those remaining to be allocated to benefiting cost objectives. At ACP, the most common types of F&A Costs on sponsored projects include:

- Compensation (Salaries, Wages and Fringe Benefits) for Administrative Staff when not working directly on one of ACP's four Programs funded by Sponsored Projects
- Basic Office Supplies
- Office and General Equipment (e.g., desks, chairs, computers)
- Photocopying
- Postage
- Repair and Maintenance (e.g., equipment, buildings, grounds)
- Telephone and Internet (e.g., monthly bills, installation, maintenance)
- Depreciation
- Insurance
- Utilities

Facilities and Administrative Cost Allocation

The method for proportionally allocating ACP's F&A costs to the benefiting project(s) must be identified in advance of the allocation, clearly documented and easily understood by a person unfamiliar with ACP's research administration and methodology. Further, the allocation method must be consistently applied to all sponsored projects. In particular, alternating between methods for reasons of convenience is not acceptable.

The ACP staff will periodically (not more often than three year intervals unless there is a significant change in funding sources or staff that requires reallocations) conduct a Time and Effort Study. The



T&E Study measures, in 15-minute increments, the staffs' tasks to determine how much effort is put into each ACP Program and funding source. Each T&E Study will include three separate months to reflect the different working environments between summer, winter and off-season. The Study will record the amount of time put into each program and delineate between direct and F&A time.

Allowable, allocable, reasonable and consistent costs per ACP's Allowable Costs Policy and the applicable OMB Circulars, that cannot be directly charged to a Sponsored Project are posted to Fund #80 for Facilities and Administrative Costs. These are costs previously identified in ACP's accounting system as indirect costs. Each month the total costs in Fund #80 will be allocated based on the percentages of effort put into each ACP Program as identified by the Time and Effort Study .

Once the monthly F&A cost total is distributed by predetermined percentage among ACP's four Programs, the overhead is then apportioned to each funding source or project that supports the Program's goals. Within Program #1, funds are dispersed among funding sources based on the total of direct costs charged to each source less participant support costs per the New eCFR –Code of Federal Regulations PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS Appendix IV to Part 200, Section B.2.c.

Charging Practices

ACP uses the Direct Allocation Method (Circular A-122, General Principles, D. Allocation of Indirect Costs and Determination of Indirect Cost Rates).

Direct costs are posted directly to the Fund associated with the sponsored award benefiting from the charge (i.e. supporting an individual participant) when the cost is incurred. Charges are posted using the Object Code (Subaccount Code, when applicable) appropriate given the nature and type of expense incurred. (For more detail, reference the Chart of Accounts: Operational Guidance.)

If a grant offers direct funding of F&A costs, these costs will be debited to the grant and credited to the F&A Fund (#80).

F&A costs are posted as a journal entry, distributing these costs to each Program based on the Time & Effort percentages. Then costs are allocated based on the amount of direct costs excluding participant support charged to the fund for the same period as the F&A costs. Because the Center draws down grant funds as a reimbursement, funds are not drawn monthly, but periodically when physicists are supported by sponsored projects.

New Funding Sources

If and when additional sponsored funds are awarded or received by ACP, a new Fund is established to incur these sponsored costs, including the associated amount of F&A costs. If necessary a new Time & Effort Study will be conducted.

Roles & Responsibilities



Principal Investigator: Responsible for understanding sponsor and ACP regulations and to ensure that direct and indirect costs are appropriately and consistently budgeted and charged to sponsored projects.

Administrative Staff: Responsible for documenting transactions in compliance with this policy and for retaining documentation, justification and back-up for transactions. This documentation should include an explicit explanation as to how the cost benefited the sponsored project. Responsible for using the appropriate Fund and Object Codes when charging costs to sponsored projects. Serve as a resource for the PI and Proposal Development Committee on how costs should be budgeted and assigned to sponsored projects.

Proposal Committee: Responsible for preparing proposal budgets in compliance with this policy and applicable sponsor regulations.

Designated Officers: Responsible for supervising the Administrative Staff and reviewing and approving specific transactions and financial reports for consistency and compliance with sponsor regulations and ACP policy.

Appendix: Applicable Federal Regulations & Criteria

ACP must comply with the OMB Circular A-122, Cost Principles for Non-Profit Organizations, as it pertains to direct and indirect costs charged to federal awards. Compliance with A-122 is implicit in this policy. (Current version revised May 10, 2004.) From the General Principles section.

B. Direct Costs

1. Direct costs are those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization. However, a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost. Costs identified specifically with awards are direct costs of the awards and are to be assigned directly thereto. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to other awards directly or indirectly.

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4. The costs of activities performed primarily as a service to members, clients, or the general public when significant and necessary to the organization's mission must be treated as direct costs whether or not allowable and be allocated an equitable share of indirect costs. Some examples of these types of activities include:

- a. Maintenance of membership rolls, subscriptions, publications, and related functions.
- b. Providing services and information to members, legislative or administrative bodies, or the public.
- c. Promotion, lobbying, and other forms of public relations.
- d. Meetings and conferences except those held to conduct the general administration of the organization.
- e. Maintenance, protection, and investment of special funds not used in operation of the organization.
- f. Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, financial aid, etc.

C. Indirect Costs



1. Indirect costs are those that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Direct cost of minor amounts may be treated as indirect costs under the conditions described in subparagraph B.2. After direct costs have been determined and assigned directly to awards or other work as appropriate, indirect costs are those remaining to be allocated to benefiting cost objectives. A cost may not be allocated to an award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been assigned to an award as a direct cost.

2. Because of the diverse characteristics and accounting practices of non-profit organizations, it is not possible to specify the types of cost which may be classified as indirect cost in all situations. However, typical examples of indirect cost for many non-profit organizations may include depreciation or use allowances on buildings and equipment, the costs of operating and maintaining facilities, and general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting.

3. Indirect costs shall be classified within two broad categories: "Facilities" and "Administration." "Facilities" is defined as depreciation and use allowances 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, library expenses and all other types of expenditures not listed specifically under one of the subcategories of "Facilities" (including cross allocations from other pools, where applicable). See indirect cost rate reporting requirements in subparagraphs D.2.e and D.3.g .

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Regulations from the New eCFR –Code of Federal Regulations PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS:

Appendix IV to Part 200—Indirect (F&A) Costs Identification and Assignment, and Rate Determination for Nonprofit Organizations

1. General.

a. Where a non-profit organization has only one major function, or where all its major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs and the computation of an indirect cost rate may be accomplished through simplified allocation procedures, as described in subparagraph 2.

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c. The determination of what constitutes an organization's major functions will depend on its purpose in being; the types of services it renders to the public, its clients, and its members; and the amount of effort it devotes to such activities as fundraising, public information and membership activities.

d. Specific methods for allocating indirect costs and computing indirect cost rates along with the conditions under which each method should be used are described in section B.2 through B.5 of this Appendix.

e. The base period for the allocation of indirect costs is the period in which such costs are incurred and accumulated for allocation to work performed in that period. The base period normally should coincide with the organization's fiscal year but, in any event, must be so selected as to avoid inequities in the allocation of the costs.

4. Direct allocation method.

a. Some non-profit organizations treat all costs as direct costs except general administration and general expenses. These organizations generally separate their costs into three basic categories: (i) General administration and general expenses, (ii) fundraising, and (iii) other



direct functions (including projects performed under Federal awards). Joint costs, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like are prorated individually as direct costs to each category and to each award or other activity using a base most appropriate to the particular cost being prorated.

b. This method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each award or other activity. The bases must be established in accordance with reasonable criteria, and be supported by current data. This method is compatible with the Standards of Accounting and Financial Reporting for Voluntary Health and Welfare Organizations issued jointly by the National Health Council, Inc., the National Assembly of Voluntary Health and Social Welfare Organizations, and the United Way of America.

New from the UG:

c. Under this method, indirect costs consist exclusively of general administration and general expenses. In all other respects, the organization's indirect cost rates must be computed in the same manner as that described in section B.2 Simplified allocation method of this Appendix.

2. Simplified Allocation Method

a. Where an organization's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (i) separating the organization's total costs for the base period as either direct or indirect, and (ii) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This method should also be used where an organization has only one major function encompassing a number of individual projects or activities, and may be used where the level of Federal awards to an organization is relatively small.

b. Both the direct costs and the indirect costs must exclude capital expenditures and unallowable costs. However, unallowable costs which represent activities must be included in the direct costs under the conditions described in §200.413 Direct costs, paragraph (e) of this Part.

c. The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such contracts or subawards for \$25,000 or more), direct salaries and wages, or other base which results in an equitable distribution. The distribution base must exclude participant support costs as defined in §200.75 Participant support costs.

d. Except where a special rate(s) is required in accordance with section B.5 of this Appendix, the indirect cost rate developed under the above principles is applicable to all Federal awards of the organization. If a special rate(s) is required, appropriate modifications must be made in order to develop the special rate(s).

e. For an organization that receives more than \$10 million in Federal funding of direct costs in a fiscal year, a breakout of the indirect cost component into two broad categories, Facilities and Administration as defined in section A.3 of this Appendix, is required. The rate in each case must be stated as the percentage which the amount of the particular indirect cost category (i.e., Facilities or Administration) is of the distribution base identified with that category.

§200.413 Direct costs.

(a) General. Direct costs are 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. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs. See also §200.405 Allocable costs.

(b) Application to Federal awards. 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. Typical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefit costs, the costs of materials and other items of expense incurred for the Federal award. If directly related to a specific award, certain costs that otherwise would be treated as indirect costs may also include extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations.

(c) The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:

(1) Administrative or clerical services are integral to a project or activity;

(2) Individuals involved can be specifically identified with the project or activity;

(3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and

(4) The costs are not also recovered as indirect costs.

(d) Minor items. Any direct cost of minor amount may be treated as an indirect (F&A) cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all Federal and non-Federal cost objectives.

(e) The costs of certain activities are not allowable as charges to Federal awards. However, even though these costs are unallowable for purposes of computing charges to Federal awards, they nonetheless must be treated as direct costs for purposes of determining indirect (F&A) cost rates and be allocated their equitable share of the non-Federal entity's indirect costs if they represent activities which:

(1) Include the salaries of personnel,

(2) Occupy space, and

(3) Benefit from the non-Federal entity's indirect (F&A) costs.

(f) For nonprofit organizations, the costs of activities performed by the non-Federal entity primarily as a service to members, clients, or the general public when significant and necessary to the non-Federal entity's mission must be treated as direct costs whether or not allowable, and be allocated an equitable share of indirect (F&A) costs. Some examples of these types of activities include:

(1) Maintenance of membership rolls, subscriptions, publications, and related functions. See also §200.454 Memberships, subscriptions, and professional activity costs.

(2) Providing services and information to members, legislative or administrative bodies, or the public. See also §§200.454 Memberships, subscriptions, and professional activity costs and 200.450 Lobbying.



(3) Promotion, lobbying, and other forms of public relations. See also §§200.421 Advertising and public relations and 200.450 Lobbying.

(4) Conferences except those held to conduct the general administration of the non-Federal entity. See also §200.432 Conferences.

(5) Maintenance, protection, and investment of special funds not used in operation of the non-Federal entity.

(6) Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, and financial aid. See also §200.431 Compensation—fringe benefits.

§200.75 Participant support costs.

Participant support costs means direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences, or training projects.

Further, ACP policies regarding direct and indirect charges on NSF awards adhere to the guidelines in the NSF Award and Administration Guide, Section V.D. (Current version revised February 2014):

B. Direct Costs, C. Other Direct Costs (**These subsections summarize the allowability of frequently encountered direct cost items.**)

D. Indirect Costs

1. NSF Policy

(i) Except as noted in AAG Chapters V.B.8 and VI.G.5, or in an NSF program solicitation, it is NSF policy that grantees are entitled to reimbursement from grant funds for indirect costs (F&A) allocable to the NSF share of allowable direct costs of a project.

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(ii) The awarded indirect cost rate is generally based upon a grantee's current Federally negotiated indirect cost rate agreement. When establishing an indirect rate for an award where the grantee does not have a current negotiated rate agreement, NSF will consider the rate proposed in the budget, the grantee's indirect cost proposal submission, the amount of total funding requested and other pertinent financial factors. Since some types of rates limit indirect cost recoveries and require adjustments, grantees receiving awards should ensure that they understand the type of indirect cost rate, the applicable base and the type of rate used in the grant.

