

II. Other Direct Costs

A. Overview

Other direct costs, (not including payroll and benefits), refers to expenditures which are allowed as a direct charge to a sponsored project. Understanding these types of costs and the procedures in place to process these expenditures will ensure the successful fiscal management of a sponsored project.

Objectives:

In this chapter you will learn about:

- the distinctions between independent contractors and subcontractors
- participant support costs
- payments to human subjects
- tracking capital equipment purchases & fabricated equipment parts
- travel reimbursements

B. Independent Contractors vs. Subcontractors

Key Words:

Independent Contractor

Subcontractor

1. Often, a portion of the work on a sponsored project is provided by a third party. Independent contractors and subcontractors have similarities and yet have very distinct roles. The information on the table below summarizes the characteristics of both.

Independent Contractors	Subcontractors
“Contributor”	“Collaborator”
Individual or organization	Must be an organization
Short term expert advice or service	Integral contribution which generally lasts through the project
Generally not named in prime proposal	Almost always identified by name in prime award
Typically does not receive rights to data	Typically granted rights in project data for results
Reimbursed a fee for services and other expenses (e.g., travel, duplicating costs etc.)	Must adhere to provided budget in accordance with OMB circulars

2. An **independent contractor** is an individual who follows an independent trade and offers their services to the public. To ensure that the individual is properly classified as an independent contractor (as opposed to an employee), he/she must meet IRS guidelines for Independent Contractors, (IC) status.
 - a. To process a payment to an independent contractor, forward the completed “independent contractor guideline form”, a W-9 form, and a signed independent contractor agreement to Accounts Payable for processing.

- b. When the fee is \$5,000 or more, a purchase order is required, and the contract must be signed by RIT’s Director of Purchasing. If the fee is less than \$5,000, complete an Invoice Payment Form.
- c. An RIT employee cannot act as an Independent Contractor. When an employee completes work on a sponsored project that is over and above his/her regular work, he/she would typically receive “additional pay” through the payroll system.
- d. It is important to note that faculty are not permitted to earn addition pay for work on federally-funded sponsored projects. In addition, hourly paid employees are paid for the additional hours worked via the regular timekeeping/payroll process – add payments are not permitted for additional hours worked.

For more information, see “[Guidelines for Determining if an Individual is an Employee or an Independent Contractor](#)” and an [agreement template](#) on the Controller’s web page
<http://finweb.rit.edu/controller/accounting/workerstatus.html>

- 3. A subcontract is required when an integral portion of the work on a sponsored project is going to be completed by a third party.
 - a. OMB Circular A-110 requires sponsor approval before issuing a subcontract under a federal award. Inclusion of the subcontract in the awarded budget proposal constitutes prior approval. SRS must request approval from the sponsor prior to issuance if the subcontractor was not named or a subcontract was not anticipated in the prime proposal.
 - b. The following items are required for subcontracts:
 - Subcontract Agreement (SRS will prepare)
 - Budget and Justification (PI must approve)
 - Scope of Work (PI must approve)
 - Description of work to be performed
 - Deliverables and due dates
 - Reporting expectations and due dates
 - c. SRS negotiates the agreement with the subcontractor and then creates a RIT purchase requisition for subcontracts of \$5,000 or more.
- 4. Subcontract fees up to \$25,000 are assessed facilities and administrative costs (F&A). When a subcontract is more than \$25,000, the amount in excess of \$25,000 is not subject to F&A costs.
 - a. Here’s an example of a 24-digit account number for a subcontract on a federal project in the College of Engineering

Subcontractor fees up to \$25,000:

0 1 . 63150 . 75300 . 15 . 30000 . 00000

Subcontractor fees over \$25,000:

Key Words:

OMB Circular A-110

Facilities & Administrative Costs

0 1 . 63150 . 75350 . 15 . 30000 . 00000

- b. Here's an illustration of how F & A is assessed on subcontractor fees. In this example, RIT issues a sub-award to Yale University for 3 years at \$35,000/year:
- Year 1 F&A: \$25,000 fee x 40.5% = \$10,125 charged to 75300
 - \$35,000 contract - \$25,000 limit = \$10,000 charged to 75350 is exempt from F&A
 - Year 2 \$35,000 fee charged to 75350 is exempt from F&A
 - Year 2 \$35,000 fee charged to 75350 is exempt from F&A
 - Total F&A on this subcontract = \$10,125
- c. When there are multiple subcontracts on one award, separate object codes will be established for each subcontract
- Use object codes 75301 – 75315 for contracts up to \$25,000
 - Use object codes 75351 – 75365 for contracts over \$25,000
5. Approval of subcontractor invoices by the principal investigator and SPA is required prior to payment by Accounts Payable.
- a. The principal investigator is responsible for the accuracy and appropriateness of the payment to the subcontractor and acceptance of the work performed; therefore, he/she must review and approve each subcontractor invoice before sending the invoice to SPA.
- b. SPA reviews the invoice for adherence to the agreement's terms and conditions and sends to Accounts Payable for processing.

Information about RIT's [current F&A rates](#) and the University's [F&A distribution policy](#) is available on the Controller's Office web page:
<http://finweb.rit.edu/controller/sponsored/rates.html>
<http://finweb.rit.edu/controller/sponsored/costreturn.html>

C. Participant Support Costs

1. Participant support costs are paid to project participants in meetings, conferences, symposia and workshops when there is a category for participant support costs in the award budget. Types of charges included in participant support costs are:
- Registration and tuition fees
 - Travel allowances
 - Subsistence allowances (to defray reasonable cost of personal maintenance)
 - Manuals and supplies to be used by the participants
 - Non-compensatory stipends
2. Here's some additional information regarding participant support costs:

- They are not allowed for support of RIT employees
- They are exempt from F & A.
- They are not allowed to be re-budgeted into other direct cost categories without prior sponsor approval.
- RIT is required to return any unexpended funds to the sponsor.
- Tuition remission for students is not considered participant support costs.

D. Payments to Human Subjects

1. Individuals who participate in a research grant as approved by the RIT Institutional Review Board (IRB) are referred to as human subjects. The IRB ensures that risks to human subjects are minimized
2. Payments to human subjects participants are not considered wages but are taxable to the recipient.
 - a. Requests for check payments to non-employees are processed through Accounts Payable using an Invoice Payment Form and must be accompanied by a completed W-9.
 - b. Payments are processed through payroll when the participant is an RIT employee.
 - c. Cash advances may be requested and payments made to participants in cash when the amount is less than \$50 per participant.
3. Cash advances for human subject payments require approval by SPA before it will be processed by Accounts Payable.
 - a. Complete an Invoice Payment Form and forward the form to SPA for approval. If approved, SPA will forward the form to the Accounts Payable Office for processing.
 - b. Accounts Payable will process the request and issue the payment as a cash advance with the check made payable to the principal investigator or employee conducting the research project.
 - c. Here's an example of a 24-digit account number for a cash advance for human subject payments on a federal project in the College of Engineering

0 1 . 63150 . 09040 . 00 . 30000 . 00000

- d. Within 90 days of receiving the advance payment, a full accounting of how the funds were used is due to SPA. The following information is required: name of the recipient (i.e., human subject), a completed Form W-9 for each participant, the date of disbursement and signature of the participant, along with a copy of the Deposit ID form to document the deposit of any unused funds with SFS.

Additional information about the [IRB and Protecting Human Subjects](#) is available on the SRS website:
<http://www.rit.edu/research/hsro>

E. Capital Equipment

1. Capital Equipment is tangible property with a useful life of more than one year and an acquisition cost of at least \$1,500 (including freight and installation charges.)
2. Equipment purchased with funds provided under a sponsored agreement should benefit the project for a significant amount of the project duration, unless otherwise approved by the sponsor.
3. Equipment purchases of \$1,500 or more are purchased on a purchase order and added automatically to the Fixed Asset system. Capital equipment is recorded as an asset on the general ledger using object code 16200.
4. RIT capitalizes software with a cost of \$100,000 or more.
5. Property Control will provide a tag number to be affixed to the equipment for inventory purposes.
6. Items not considered to be capital equipment include:
 - Equipment and furniture with a per unit cost less than \$1,500
 - Equipment maintenance and repairs
 - Warranties for capital equipment
 - Equipment rentals & leases
 - Licenses & permits
 - Supplies

To obtain more information about accounting for capital equipment, go to the Controller's Office web page:
<http://finweb.rit.edu/controller/property/>

F. Fabricated Equipment Charged to Grants or Contracts

1. Fabricated equipment is tangible property with a useful life of more than one year where the combined cost of component parts is \geq \$1,500. SPA will review the grant/contract to determine the allowability of this type of activity by the sponsor.
2. The intent to fabricate a piece of capital equipment must be approved in advance by the RIT Property Control Office.

3. Purchases of component parts to fabricate capital equipment are initially charged to object code 16250 (fabricated equipment). This ensures that F&A is not assessed on the individual component parts. It is the responsibility of the PI to maintain all documentation of costs of component parts.
 - a. Purchases of component parts made with a procurement card cannot be directly charged to object code 16250. In these cases, items can be charged to an object code dedicated to supply purchases such as 73006- Supplies - General - F. After the transactions post to the supplies object code, please forward a request to SPA to move the charges for the component parts to object code 16250. The request must be accompanied by a summary of the purchases charged to the supplies object code and detailed receipts.

The [Fabrication Request Form](http://finweb.rit.edu/controller/property/docs/equipmentfabricationpolicy.pdf) is located on the Controller's web page:
<http://finweb.rit.edu/controller/property/docs/equipmentfabricationpolicy.pdf>

4. When the equipment is complete, the PI notifies Property Control. Property Control will record the equipment in the Fixed Asset system and then provide a tag number to affix to the equipment for inventory purposes.

G. Travel Reimbursement for Grants and Contracts

1. Domestic and foreign travel-related expenses can be charged if there is a direct benefit to a sponsored agreement.
 - a. If travel does not include airfare or an overnight stay, complete an Invoice Payment Form for reimbursement of mileage and tolls and send the form to Accounts Payable for processing.
 - b. Trips with airfare and/or lodging are reimbursed via a Travel Expense Report (TER), completed with original receipts, and forwarded to Accounts Payable within 5 days of the trip.
2. Foreign travel requires additional external and internal reviews and approvals prior to charging the cost to a sponsored agreement.
 - a. Prior approval from the sponsor is required for foreign travel unless identified in the proposal or incorporated as part of the award agreement. If sponsor approval is not evident in the sponsored agreement and/or budget, contact SRS to obtain sponsor approval prior to making any foreign travel arrangements.
 - b. In compliance with the Fly America Act, all air travel on federally-funded projects must be on a U.S. air carrier. There are limited exceptions. Contact your SPA representative prior to making any overseas travel arrangements with a foreign air carrier.

- c. Upon return from an overseas trip, complete a TER and send to SPA for approval. If approved, SPA will forward to the TER to the Accounts Payable Office for review and processing.
3. RIT travel Policies and procedures apply to all travel, regardless of the funding source (i.e., a sponsored project or other Institute funds). Sponsor guidelines for travel reimbursement may be more restrictive than RIT's policies. When that occurs, reimbursement will adhere to the sponsor guidelines. When RIT's policy is more restrictive than the sponsor guidelines, RIT's policy will be applied to the reimbursement.

Detailed [travel policy and procedure](http://finweb.rit.edu/controller/travel/travelpoliciesandprocedures.html) information, including the Travel Expense Report, is available on the Controller's Office web page:
<http://finweb.rit.edu/controller/travel/travelpoliciesandprocedures.html>

4. Alcoholic beverages cannot be charged to a federal or state grants and contracts. Charge alcohol expenses to the department's operating account on the "government non-reimbursable" object code 79050.
5. Nonrefundable airline tickets should not be charged to a grant if the trip is cancelled. If the trip is cancelled there is no benefit to the project and the cost should be absorbed by the department operating account.