



FREQUENTLY ASKED QUESTIONS INDIRECT COSTS

Texas law states that, “A person receiving money [from the Cancer Prevention and Research Fund] for cancer research may not spend more than five percent of the money for indirect costs...[I]ndirect costs means the expenses of doing business that are not readily identified with a particular grant, contract, project, function, or activity, but are necessary for the general operation of the organization or the performance of the organization’s activities.”

Consistent with its authority to interpret statutory requirements, CPRIT has proposed administrative rules (proposed §§ 703.2(2), 703.2(9) and 703.12) that provide guidance for grant applicants related to authorized expenses and limitations on indirect cost recovery. The text of the proposed rule, as well as other grant procedure rules, is available at the CPRIT website (www.cprit.state.tx.us). The proposed rules are expected to be final by November 10, 2009. CPRIT does not expect the text of the proposed rule related to limitations on the use of CPRIT funds to change substantially before it becomes final. The guidance provided in this document is based on the text of the proposed rule.

This document may be updated to respond to additional questions. Applicants with questions about recovery of indirect costs are encouraged to check updates to the “Frequently Asked Questions – Indirect Costs” at the CPRIT website.

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Is there a definition that CPRIT uses to determine what costs are considered indirect costs?

Texas law applicable to CPRIT grants defines indirect costs as “the expenses of doing business that are not readily identified with a particular grant, contract, project, function, or activity, but are necessary for the general operation of the organization or the performance of the organization’s activities.”

What costs are not limited by the five percent cap on indirect cost recovery?

Costs that are clearly associated with the research funded by the grant are considered direct costs and are not subject to the five percent limitation on indirect cost recovery.

What are direct costs?

Direct costs are identified specifically with a particular grant and directly assigned to grant activities relatively easily and with a high degree of accuracy. In general, direct costs must be allowable, allocable, and reasonable.

What does it mean to say that direct costs must be allowable?

Allowable costs are costs that are not otherwise prohibited from recovery by state law, regulation, or grant guidelines. Texas law requires that CPRIT funds be spent only on authorized expenses, including honoraria, salaries and benefits, travel, conference fees and expenses, consumable supplies, other operating expenses, contract research and development, capital equipment, and construction or renovation of state or private facilities. However, the law limits the amount of money that may be spent on certain items like indirect costs and facility construction, remodeling, or renovation. Certain CPRIT grant applications further limit or prohibit recovery of specific costs. For example, recipients of High Impact/High Risk grants are not permitted to spend any grant funds on travel expenses or construction costs.

What does it mean to say that direct costs must be allocable?

A cost is allocable to a particular sponsored project if the goods and services involved are chargeable to the sponsored project. A cost is allocable if it:

- Is incurred solely to advance the work under the sponsored grant; or
- Benefits the grant project and can be assigned to the project through the use of reasonable methods. Some direct costs may simultaneously benefit other work of the institution.

What does it mean to say that direct costs must be reasonable?

Goods or services paid for with CPRIT grant funds must be generally recognized as necessary for the performance of the grant and may be considered reasonable if the nature of the goods or services acquired and the amount involved reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision was made to incur the cost.

What are some examples of costs that may be considered direct costs?

- Salaries and fringe benefits of personnel including faculty, technicians, post doctoral fellows, graduate research assistants and other personnel directly engaged in performing sponsored project's scope of work subject to certain limitations by grant guidelines.
- Costs such as travel, scientific/equipment maintenance and repairs, utilities, communications costs, and other directly related costs necessary for performing the grant's specific scope of work unless specifically prohibited by grant guidelines.
- Supplies and materials (including cost of animals) necessary for performing the grant's scope of work including educational material when approved in the budget.
- Research costs including institutional review board costs, facility fees, research office, etc. that are reasonable, directly associated with the grant's scope of work and approved in the budget.
- Rental/leasing costs for grant projects conducted in rental space not owned by the grant recipient may be approved in extraordinary circumstances.
- Subcontracts necessary for performing the sponsored project's specific scope of work and approved in the budget. Please note that recipients must disclose any financial or representational interests in subcontracting entities.
- Consultant services contracted to accomplish specific grant objectives and approved in the budget
- Equipment, including capital equipment (as established by the State of Texas capitalization threshold), that can be allocated to the grant and that is specifically approved in the budget.
- Service/maintenance agreements on equipment and facilities (including animal facility maintenance) directly associated with the grant and approved in the budget.

What are some examples of costs that will not be considered direct costs?

- Salaries of clerical and administrative personnel engaged in routine departmental or administrative work that benefits all activities of the department (instruction, research, training, public service, etc.), *i.e.*, there is no direct relationship to the sponsored grant's scope of work.
- Supplies and materials for routine departmental or administrative activities of the department that benefit all activities of the department (instruction, research, training, public service, etc.), *i.e.*, there is no direct relationship to the sponsored grant's scope of work.
- Other costs such as repairs, fees and services, local and long distance telephone expenses, copying and postage that are for routine departmental or administrative use, and do not have a direct relationship to the sponsored grant's scope of work.
- General office items with multi-functional use such as computers, fax machines, answering machines, staplers, hole punches, filing cabinets, chairs, desks, calculators, waste baskets, etc., that do not have a direct relationship to the sponsored grant's scope of work.
- Costs being paid by another source.

What are some examples of costs that will never be considered direct costs?

- Advertising for general promotion, including promotional items, memorabilia, gifts, and souvenirs
- Alcoholic beverages
- Alumni or fund-raising activities
- Donations or Contributions
- Commencement expenses
- Cost Overruns; any costs overruns allocable to another agreement may not be shifted to the sponsored grant
- Decorative objects for private offices
- Entertainment
- Meals or any food items

- Fine/original art
- Fines and penalties
- First-class/business-class air travel differentials
- Flowers
- Gifts or prizes
- Goods or services for personal use
- Lobbying
- Memberships in airline travel clubs, civic, social, community organizations or country clubs
- Social events and entertainment costs
- Bad debts
- Labor relations costs
- Grant proposal costs
- Sabbatical leave costs
- Trustee expenses