



Guide Sheet

Direct Costs

Direct costs are costs that can be identified specifically with a final cost objective. In other words, these costs can be attributed directly and are easily traceable to a particular service, product, or grant program. By contrast, indirect costs are difficult to trace to a specific cost objective and are usually attributed broadly through allocations or cost rates.

To decide whether a cost is direct, ask yourself the following:

- ▶ Does the cost result in a direct benefit to the program?
- ▶ Can it be easily and accurately traced to the program?
- ▶ Does it benefit only one program?
- ▶ Is it normally charged as indirect?

If 1, 2, and 3 are yes and 4 is no, it is a direct cost.

- ▶ *Example of a direct cost:* The purchase of a printer for use in a program office is a direct cost. The equipment or supply had a fixed product price, and it could be attributed to a particular and single program for which it was bought.

Grant Financial Management Requirement

Maintaining a specific and clear record of direct costs incurred is essential for budgeting and reporting purposes and ensures that overall cost tracking is well executed. It also supports the calculation and expensing of indirect costs as they are, in most cases, calculated and allocated based on direct costs. A misrepresentation of direct costs would not only affect the category in and of itself but also indirect costs, which are calculated by applying rates to the direct costs.

Important Information to Know

OJP recognizes the following categories of direct costs:

- ▶ **Personnel**—Refers to staff assigned to work on the particular grant program. Administrative staff who work for the organization as a whole and are not directly associated with the program should be allocated as indirect.
- ▶ **Fringe benefits**—These are not salaries but benefits assigned to staff who work specifically on the grant program. They include health insurance plans, medical leave, retirement plans, worker's compensation, etc.



- ▶ **Equipment**—Purchases of tangible personal property to be used by program personnel during the course of the program that have a useful life of more than one year **and** cost \$10,000 or more per unit. *Note:* Use the organization's capitalization threshold, if the cost is less than \$10,000.
- ▶ **Supplies**—Purchases of tangible personal property to be used by program personnel during the program course that are **not** defined as equipment, per above.
- ▶ **Travel**—Includes airfare, lodging, and per diem expenses. Expenses must have been budgeted and have a direct relation to the program. They must not include charges for premium accommodations or services. Foreign travel is permitted but requires pre-approval in each instance.
- ▶ **Contractual**—Includes all services performed by an independent contractor who is not affiliated or part of the organization.
- ▶ **Other**—Any other costs not included in the six categories above.

Always keep in mind that a cost may not be assigned to an award as a direct cost if another cost incurred for the same purpose, in similar circumstances, has been allocated to the award as an indirect cost.

How This Applies to Your Grant

All grantees will incur direct costs when implementing their grant programs, so proper assignment and tracking of direct costs is a grantee responsibility. OJP asks that grantees observe the guidelines listed below for each category.

Personnel

Do:

- ▶ Make sure that rates of pay are reasonable and in accordance with the work performed.
- ▶ Expense costs based only on actual hours worked on the grant program, as evidenced by attendance reports and timesheets.
- ▶ Record these costs in a payroll ledger and then post to detailed general ledger accounts.

Do Not:

- ▶ Process timesheets without a proper signature or approval.
- ▶ Record costs based on budgeted figures instead of actual hours worked.
- ▶ Incur costs not approved in the budget.



Fringe Benefits

Do:

- ▶ Separate these costs from salaries in accounts and reports.
- ▶ Specify the type of benefit individually (health insurance plans, medical leave, etc.) or the benefit rate used.

Do Not:

- ▶ Offer benefits that are not consistent with salary amounts.
- ▶ Allocate excessive benefits for executives.

Equipment

Do:

- ▶ Purchase equipment through a formal procurement process.
- ▶ Justify the purpose of purchase as adequate, relevant, and necessary for the program.
- ▶ Keep a detailed property and inventory record.

Do Not:

- ▶ Purchase equipment without conducting a purchase vs. lease analysis, especially for most costly items.
- ▶ Leave inventories unattended or improperly maintained.
- ▶ Overlook clearly labeling and identifying federally purchased items.

Supplies

Do:

- ▶ Ensure their relevance to the program.
- ▶ Provide a detailed budget for all required supplies.

Do Not:

- ▶ Maintain insufficient documentation of purchases.
- ▶ Purchase any items outside of approved budget.

Contractual

Do:

- ▶ Use a formal procurement process in which competitive bids are submitted and evaluated.



- ▶ Ensure that thresholds¹ were approved and complied with for sole source purchases² and consultants.
- ▶ Document the nature of the work, scope and deliverables, and payment arrangements in a signed contract.
- ▶ Corroborate and comply with the excluded parties list.

Do Not:

- ▶ Conduct transactions or business that may incur (or seem to incur) in a conflict of interest.
- ▶ Participate in sole source contracts of more than \$250,000.
- ▶ Exceed maximum consulting rate of \$650 per 8-hour day without prior approval from OJP.

Travel

Do:

- ▶ Include purpose of trip and how it aligns with program needs in authorization request.
- ▶ Have all costs authorized by corresponding official from your organization (foreign travel requires pre-approval from OJP in each instance).
- ▶ Keep receipts and submit them in a timely manner.

Do Not:

- ▶ Incur unnecessary or unreasonable costs.
- ▶ Expense premium charges without prior approval.
- ▶ Exceed federal per diem rates, which can be found [here](#).

Other

Do:

- ▶ Explain how they pertain to the program.
- ▶ Maintain adequate documentation for each cost.

Do Not:

- ▶ Incur if not previously approved in budget.

¹ **Threshold** refers to the maximum amount approved to expend.

² **Sole source purchases** are those made from a single source or supplier because there are no alternatives that offer the product or service.



Resources

[DOJ Grants Financial Guide](#)

[Guide to Procurements under DOJ Grants and Cooperative Agreements](#)

[2 CFR §200.413 Direct Costs](#)

[2 CFR §200.475 Travel Costs](#)

Disclaimers

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