

OGRD Memorandum 24

Cost Determination Guidelines for Sponsored Agreements

WASHINGTON STATE UNIVERSITY

The Office of Research
Office of Grant and Research Development

January 12, 2004

I. Introduction

OMB Circular A-21, Cost Principles for Educational Institutions and the Cost Accounting Standards (CAS) included in the circular, provides principles for determining costs applicable to research and development, training, and other sponsored work performed by colleges and universities on federally funded grants, contracts and cooperative agreements (collectively called sponsored agreements). In addition, OMB Circular A-110, Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, requires “written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award, (Subpart C(21)(b)(6)).”

This guideline takes into account the unique needs and requirements of the University’s research community in order to comply with the requirements of OMB Circular A-21, OMB Circular A-110, Federal Demonstration Partnership (FDP) terms and conditions, the University’s CAS Disclosure Statement, and the University’s facilities and administrative cost agreement with the federal government. Future modifications to this and other internal policies may be necessary as further adjustments and interpretations are issued by the federal government.

The University delegates considerable authority and responsibility for fiscal compliance to Principal Investigators (PIs) and their departments (see OGRD Memo #20). This requires the development of significant expertise at the department level and relies heavily on PIs and departmental fiscal staff to comply with WSU policies and various sponsor rules and regulations.

II. Definitions

A. Reasonableness

Project costs may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. See OMB Circular A-21 Section C.3 for major considerations involved in the determination of the reasonableness of a cost.

Reference OMB Circular A-21, Section C.3

B. Allocability

Project costs that are assignable or chargeable to one or more costs objectives in accordance with the relative benefits received or other equitable relationship. The costs must advance, benefit, or be necessary for the sponsored agreement to be allocable.

Reference OMB Circular A-21, Section C.4

C. Allowability

According to OMB Circular A-21, a cost may be charged to a sponsored agreement only if it meets *all* of the following criteria:

- (a) It must be a reasonable cost.
- (b) It must be allocable to the sponsored program.
- (c) It must be treated consistently, through the application of generally accepted accounting principles.
- (d) It must be within the limitations specifically defined in Circular A-21 and the particular contract or agreement, in terms of the type of cost item and dollar amount charged.

D. Direct Costs

OMB Circular A-21, Section D.1, states:

Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional 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 F&A₁ costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs.

A cost is considered direct when a specific grant or contract gains explicit benefit from the cost for a specific programmatic purpose. For example, a PI's salary, when represented by scientific effort on a particular grant or contract, is an example of an allowable direct cost to that grant or contract.

E. Facilities and Administrative Costs (formerly indirect costs)

OMB Circular A-21, Section E.1, states:

Facilities and Administrative (F&A) costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.

At educational institutions such costs normally are classified under the following facilities and administrative categories: depreciation and use allowances, general administration and general expenses, sponsored projects administration expenses, operation and maintenance expenses, library expenses, departmental administration expenses, and student administration and services.

Facilities and administrative costs are infrastructure costs of the University that support the programs of the institution, including research and other sponsored programs. Examples of facilities and administrative costs are building depreciation, maintenance costs, the cost of electricity and heat, accounting services, personnel services, departmental administration, purchasing and human subjects administration.

III. Consistent Treatment of Direct and F&A Costs

Consistent treatment of costs is a basic cost accounting principle. Consistency is specifically required by OMB Circular A-21 to assure that the same types of costs are not charged to grants and contracts both as direct and facilities and administrative costs. This requirement ensures that the federal sponsor is not paying twice for the same costs in like circumstances. The concept of consistency is further reinforced and emphasized by Cost Accounting Standard 502, found in OMB Circular A-21, Section C.11.a.

Consistency in the context of CAS 502 means that costs incurred for the same purpose, in like circumstances, must be treated uniformly either as direct costs or as facilities and administrative costs. Since certain costs such as salaries of administrative and clerical staff and office supplies are normally treated as facilities and administrative costs, these costs cannot be charged directly to federal grants or contracts unless the circumstances related to a particular project are clearly different from the normal operations of the institution.

For example, although office supplies are normally treated as a facilities and administrative costs, a particular grant or contract may have a special need for envelopes to mail hundreds of survey questionnaires. In this case, it is appropriate to charge the grant or contract directly for the envelopes and postage required to conduct the survey because those needed would significantly exceed the quantity routinely provided by the office. The mailing of the questionnaires creates an "unlike circumstance" for envelopes, postage, and other supplies used for the survey, but not for other routine office supplies unrelated to the survey.

IV. Distribution of Direct Costs Between Two or More Grants or Contracts

OMB Circular A-21 provides two methods for allocating an allowable direct cost to two or more sponsored projects.

OMB Circular A-21, Section C.4.d.(3), states:

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit.

If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefited projects on any reasonable basis.

A. The Proportional Benefit Rule

The proportional benefit rule applies when it is possible to determine the proportional benefit of the cost to each project. The cost is allocated according to the proportion of benefit provided to each project. For example, the cost of lab supplies might be allocated based upon the quantity used (or planned to be used) on each project.

B. The Interrelationship Rule

The interrelationship rule applies when it is not possible to determine the proportional benefit to each project because of the interrelationship of the work involved. The cost is distributed on any reasonable basis because the proportional benefit cannot be quantified and identified to the individual projects. For example, the cost of lab supplies might be allocated based upon the allocation of employee salaries to each project.

V. Direct Costs

The following types of costs should be directly charged to sponsored agreements when they can be specifically identified to the work performed under those agreements.

A. Salaries, Wages and Fringe Benefits

- Faculty
- Research Associates
- Predoctoral and Postdoctoral Fellows
- Technicians, Lab Assistants, Graduate Students
- Tuition remission for Graduate Students

B. Supplies and Materials

- Chemicals
- Laboratory Supplies
- Computer Software
- Drugs
- Books
- Minor Equipment
- Uniforms
- Photographic supplies
- Tools
- Animals

C. Other Direct Costs

- Travel
- Postage
- Subcontracts
- Consulting Services
- Equipment
- Animal Care Per Diem
- Motor Pool
- Other costs specifically identified and justified in funded proposals (see [section VI](#))
- Long distance telephone costs
- Freight and Express
- Patient Care and Subject costs
- Costs that are normally facilities and administrative costs may be charged to non-federally sponsored agreements if permitted by the sponsors policies/practices or are otherwise approved by the sponsor

NOTE: Off-Campus Projects Only

Facilities Costs - such as rent, maintenance, security, utilities.

VI. Facilities and Administrative Costs (F&A)

As noted in [II.E.](#), F&A costs include institutional infrastructure costs for research and other sponsored programs. Costs incurred for program support and administration which occur at the college, school and department levels which should normally be treated as F&A are identified in section A (Administrative and Clerical Salaries) and section B (Other Facilities and Administrative Costs).

A. Administrative and clerical salaries

OMB Circular A-21, Section F.6.b., states:

The salaries of administrative and clerical staff should normally be treated as F&A costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity.

Administrative and clerical salaries may be treated as direct costs under certain exceptional and unlike circumstances if the circumstances meet the definition of a major project or activity as outlined in OMB Circular A-21. A major project or activity is defined as a project that requires extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments. Some examples of major projects are described in OMB Circular A-21, Exhibit C as repeated below.

- Large, complex programs, such as General Clinical Research Centers, Primate Centers, Program Projects, environmental research centers, engineering research centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.
- Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting, such as epidemiological studies, clinical trials, and retrospective clinical records studies.
- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- Projects that are geographically inaccessible to normal departmental administrative services, such as seagoing research vessels, radio

astronomy projects, and other research field sites that are remote from the campus.

- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols, IRB preparations and/or other project-specific regulatory protocols; and multiple project-related investigator coordination and communications.

OMB also states as part of this interpretation:

These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples.

Where direct charges for administrative and clerical salaries are made, care must be exercised to assure that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities.

Responsibilities that fall within normal departmental administrative functions cannot be charged directly to sponsored projects. The costs of administrative work such as routine budget monitoring, filing and other general office tasks are not usually considered allowable direct costs because such work is common across many sponsored projects. Such costs may support grant or contract activities, but they are classified as facilities and administrative costs because they do not meet the major project or activity definitions and specific identification standards of OMB Circular A-21, section F.6.b.

Administrative or clerical salaries may be directly charged only if they meet the following requirements:

- They fall within the special circumstances described in the OMB interpretation quoted in section VI(A) of this policy.
- The individual has responsibilities specifically identifiable to the work of the project and the effort devoted to the project is documented.
- The title, percent of effort and salary of the administrative or clerical position is included in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging of the services are justified in the proposal.
- The sponsoring agency accepts the cost as part of the projects direct cost budget. That is, the sponsor does not specifically disapprove the cost in the award or in other notices it gives to the University.

B. Other Facilities and Administrative Costs

The following additional costs are usually treated as F&A costs as noted in OMB Circular A-21 Section F(6)(b)(3) . They may be treated as direct costs only under special or unique circumstances.

- Office Supplies
- Postage
- Basic Local Telephone Services On Campus - Basic services include phone installation, monthly line charges, basic instruments
- Memberships

1. Justifying the Treatment of Normal Facilities and Administrative Costs as Direct Costs

These types of costs may be directly charged only if they meet the following requirements:

- a. The project has a special need for the item or service involved that is beyond the level of services normally provided.
 - b. The costs can be specifically identified to the work conducted under the project.
 - c. The costs are specified in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal.
 - d. The sponsoring agency accepts the cost as part of the projects direct cost budget. That is, the sponsor does not specifically disapprove the cost in the award or in other notices it gives to the University.
- ### **2. Examples of Unique Circumstances Justifying Direct Charges**
- Office Supplies/Postage - Envelopes used to mail an unusually large number of research questionnaires.
 - Basic Local Telephone Service On Campus - A hotline or crisis line that is specifically required by a grant or contract.
 - Memberships - A membership in a professional or scientific organization if joining is the only means of obtaining a specific journal or periodical directly related to a grant or contract.

C. Re-budgeting of Usual Facilities and Administrative Costs

When a need arises to incur costs that are normally F&A and where sponsoring agencies permit re-budgeting after a project has started, the need and the exceptional circumstances must be justified and documented in writing by the PI and submitted to the Sponsor for approval via OGRD.