

The Medical College of Georgia

Administrative Policies and Procedures

Office of Primary Responsibility
Sponsored Program Administration

Subject:
Direct Charging Policy

1.0 Purpose

To provide the institutional standard for determining how costs are charged to sponsored agreements.

2.0 Definitions

- 2.1 **OMB Circular A-21:** This document from the federal Office of Management and Budget defines cost principles for educational institutions, including appropriate charges to federal awards.
- 2.2 **Direct Costs:** Expenses that are specifically associated with a particular sponsored project. Direct cost expenses can be identified to such activities relatively easily with a high degree of accuracy.
- 2.3 **Facilities and Administrative costs (F&A; also referred to as indirect costs or overhead):** Those costs associated with the conduct of sponsored activities that are incurred for common or joint objectives and therefore are not readily identifiable with a specific project.
- 2.4 **Allowable Costs:** In general, expenses are chargeable to sponsored projects only if they are:
- 2.4.1 **Reasonable:** A prudent person would have purchased this item and paid this price. Considerations involved in the determination of the reasonableness of a cost are whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored project, federal and state regulations, sponsored agreement terms and conditions, and the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices.
- 2.4.2 **Allocable:** Expenses can be assigned to the activity based on the benefit derived. A cost is allocable to a sponsored project if it is incurred solely to advance the work under the sponsored agreement.
- 2.4.3 **Consistently Treated:** Like expenses must be treated the same in like circumstances. Office of Management and Budget Circular A-21 states that no cost can be charged to a sponsored project as a direct charge if other costs incurred for the same purpose in the same circumstances have been included in any Facilities and Administrative cost pool.
- 2.4.4 **In conformity to any limitations or exclusions set forth in OMB Circular A-21:** A-21 defines categories of costs that are allowable as direct costs, allowable as indirect costs, and unallowable (see section 4.1, Cost Categories).
- 2.5 **Major Project:** A project that requires an extensive amount of administrative or clerical support/supply costs that are significantly greater than the routine level of services provided by academic departments.
- 2.6 **Disclosure Statement (DS-2):** A requirement of Circular A-21 that educational institutions file a statement with their federal cognizant audit agency that describes the cost accounting practices of the institution.
- 2.7 **Cost Accounting Standards (CAS):** The Cost Accounting Standards, implemented in 1980 by the Cost Accounting Standards Board, outline standards to achieve consistency in cost accounting practices. These standards address the measurement, assignment, and allocation of costs to the

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federal government. Four of the standards are applicable to educational institutions and were incorporated into Circular A-21.

- 2.8 **Cost Sharing.** Project expenses that are not reimbursed by the sponsor. For the Medical College of Georgia Cost Sharing Policy, please see <http://www.mcg.edu/Policies/7005.html> .

3.0 Background

Federal sponsors require that direct costs of research be related to specific actions supported by a grant. Those costs must be reasonable and necessary, not exceeding the costs that would be incurred by a prudent person, and they must be allowable, allocable, and easily identifiable as a benefit to the project receiving the charge. Because institutions provide infrastructure support that is not easily identifiable with specific projects, they are allowed to apply Facilities and Administrative (F&A; formerly indirect costs) support costs to federal grants and contracts on an average rate basis to help offset the infrastructure costs. As required by the federal Office of Management and Budget (OMB) Circular A-21, the Medical College of Georgia negotiates a Facilities and Administrative cost rate agreement with the federal government to arrive at the F&A reimbursement rate. This rate is applicable to all federal awards that do not restrict F&A costs (e.g., training awards). In the process of developing the F&A rate proposal, a number of institutional cost pools are applied to identify the indirect cost of conducting research. Those cost pools include obvious items, such as utilities, depreciation, library services, sponsored program administration, and a portion of departmental and central personnel, to be assigned to the institution's research infrastructure costs. They also include other "administrative" items (such as office supplies, postage, local telephone costs, journals, and memberships) in proportion to research spending relative to total institutional spending. Because the institution is reimbursed for these administrative supplies as a part of the F&A rate, those cost items normally cannot be charged as direct costs.

Circular A-21 does allow these expenses to be charged directly to a sponsored project in certain circumstances. Direct charging may be appropriate where a *major project* or activity explicitly budgets for administrative or clerical services/supplies, and these costs can be specifically identified with the project or activity. Examples of major projects (taken from OMB Circular A-21 Exhibit C) where it may be allowable to direct charge expenses that are normally treated as F&A costs are identified 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 that involve *extensive data accumulation*, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting.
- 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 research vessels, radio astronomy projects, and other research sites that are remote from campus.
- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communications.

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- These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries or clerical supplies would always be appropriate for the situations illustrated in the examples. For instance, the examples would be appropriate when the costs of such activities are incurred in unique circumstances. It would be inappropriate to charge the cost directly if in similar circumstances the costs are charged as institutional operating expense and are included in the F&A base.

4.0 Policy

The Medical College of Georgia (MCG) follows the general guidelines in sections D and E of Circular A-21 in determining the treatment of costs as direct or indirect. MCG's F&A costs are consistent with the definitions of specific F&A cost categories in section F of Circular A-21. It is the responsibility of the department incurring the cost to classify costs incurred for the same purpose, in like circumstances, consistently as either direct or F&A costs.

4.1 **Cost categories:** Following is a list of costs that are normally either direct or F&A costs to sponsored projects under "like" circumstances.

4.1.1 ***Normally Direct Costs: the following should normally be directly charged to sponsored accounts. However, the terms of the specific agreement and the sponsoring agency's regulations must be reviewed prior to determining the appropriateness of costs for an individual project. Note also that direct costs must meet the criteria in section 2.4 above, i.e., allowable, directly benefiting the project, reasonable, and consistently treated.***

- 4.1.1.1 Salaries and Wages/Employee Benefits: Faculty, technicians, research associates and assistants, including graduate research assistants and other students performing scientific or technical work, post doctoral associates and other technical and programmatic personnel necessary to meet the goals of the project.
- 4.1.1.2 Professional and Consulting Fees: Specific restrictions may apply to hourly and daily rates. An individual may not normally be an employee and a consultant on the same sponsored agreement.
- 4.1.1.3 Repairs and maintenance: Costs incurred for necessary maintenance, repair, or upkeep of property (purchased as a direct charge to the project) that neither add to the permanent value of the property nor appreciably prolong its intended life but keep it in an efficient operating condition.
- 4.1.1.4 Special purpose equipment: equipment that is used only for research, medical, scientific, or other technical activities.
- 4.1.1.5 Supplies: Laboratory and scientific supplies, chemicals, glassware, field supplies, compressed gases and liquids, radioactive material, and animals. These items should be charged to projects based on benefit derived. If multiple projects are being supported in one lab there must be documented a reasonable method of allocation of charges to all projects.
- 4.1.1.6 Telephone: long distance charges necessary to carry out the objectives of the sponsored project.

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- 4.1.1.7 Travel required to carry out the objectives of the sponsored project.
- 4.2 **Normally F & A:** *The following are normally treated as F&A costs and are not directly charged to sponsored agreements nor used as cost sharing. These costs are charged to institutional funds and recovered through applications of the F&A rate.*
- 4.2.1 Accounting and audit costs.
- 4.2.2 Computer Services or Use Fees: Routine, standard computer services, hookups and networking costs, including MIS/ITD/Networking costs are normally F&A.
- 4.2.3 Salaries and Wages/Employee Benefits: Administrative and clerical positions such as administrative assistants, accountants, office personnel, student office workers, purchasing agents and buyers; administrative activities of directors and assistant/associate directors, executive assistants, and other administrators.
- 4.2.4 General purpose equipment: Equipment whose use is not limited only to research, medical, scientific or other technical activities. Examples of general-purpose equipment include office equipment (personal computers, FAX machines, typewriters, copiers) and furnishings (desks, chairs, file cabinets), air conditioning equipment, reproduction and printing equipment, and motor vehicles.
- 4.2.5 Legal services, insurance, general recruitment advertising, repairs and maintenance of general purpose (see 4.2.4 above) equipment and facilities.
- 4.2.6 Supplies: Office supplies (printers, scanners, paper, toner, post-its, markers, hole punchers, binders, folders, forms,) custodial supplies, parts and supplies associated with repair and maintenance of general purpose equipment and facilities, lab coats, scrubs, general purpose books and reference materials.
- 4.2.7 Library costs/collections/acquisitions.
- 4.2.8 Travel related to administrative activities.
- 4.2.9 Postage (including express delivery, etc.); basic telephone service, installation, repair, and line charges; fax line charges; cellular phone purchase and use fees; utilities.
- 4.2.10 Dues/memberships in professional and technical organizations, subscriptions (other than those specifically required for the performance of the sponsored activity).
- 4.3 **Unallowable:** The following types of costs *may not* be charged to a federally sponsored agreement either *directly* or as *F&A* costs. This is a quick reference. Please be aware that there are some exceptions to some of the categories listed.
- 4.3.1 Advertising, Public Relations and Promotional Costs: Institutional promotion of MCG is unallowable. Some types of advertising, such as recruitment of study patients or study personnel, may be allowable.
- 4.3.2 Alcoholic beverages.
- 4.3.3 Alumni activities.

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- 4.3.4 Bad debts.
- 4.3.5 Charitable contributions, donations or gifts (cash, services or property).
- 4.3.6 Commencement and convocation expenses
- 4.3.7 Contingency provisions
- 4.3.8 Entertainment costs
- 4.3.9 Fines and penalties
- 4.3.10 Food Costs: For seminars or patient incentives, food costs may be appropriate as a direct cost when related to the specific needs of the agreement, in which case they usually are authorized as part of the agreement. Food costs for routine operations or staff meals are not allowable except in the course of travel or as part of a bona fide meeting related to the terms of project. Documentation, including the names of those in attendance, their social security number or employee ID, must be provided in order to directly charge food to a sponsored agreement.
- 4.3.11 Fund raising and investment management costs.
- 4.3.12 First class or other non-coach class travel.
- 4.3.13 Honoraria/awards (i.e., a payment without service). Speaker's fees or other payments involving the provision of service are allowable if they are related to the work of the project being charged.
- 4.3.14 Personal use of goods or services.
- 4.3.15 Student activity costs.

5.0 Approval of Exceptions:

- 5.1 Federal regulators have stated that sponsor approval of a budget does not constitute approval of the specific line items. The sponsor assumes that researchers at MCG have complied with A-21, the Cost Accounting Standards, our F&A proposal assumptions, and any other applicable regulations. A cost that may be allowable at one institution as a direct charge may not be allowable at another because of the differences in the Disclosure Statement and the F&A cost proposal. There would be no way for the sponsor to make a determination of allowability because of these variables; therefore, it is the institution's responsibility to exercise this judgment. In general, if a cost were to be incurred whether or not a project were being carried out, the cost should not be direct charged to the project but should be treated as an F&A cost. If a Principal Investigator believes that any of the costs listed in section 4.2.2 are appropriate as direct costs, they should be included in the proposal budget and be fully justified on the basis of unique or mitigating scientific/technical needs of the project. If the Principal Investigator determines that there is a need for these types of costs but they were not included and justified in the original budget submitted to the sponsor or to the Division of Sponsored Program Administration (SPA), the Principal Investigator may request an exception to direct charge the costs. In accordance with Circular A-21 requirements, MCG requires written justification to be provided to the Division of Sponsored Program Administration, Sponsored Accounting for an item normally considered an F&A cost to be directly charged to a sponsored project. The justification must specifically address

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how the cost would benefit the project, how the charge would be assigned to the project with a high degree of accuracy, and what the unique or mitigating scientific/technical needs of the project are. A satisfactory justification will answer the following questions:

- 5.1.1 Does the cost provide a direct benefit to the purpose or objective of the project?
- 5.1.2 Can the cost meet the definition of a direct cost? Can the cost be specifically identified with a project with relative ease and with a high degree of accuracy, and is it allowed by the terms and conditions governing the particular award?
- 5.1.3 For clerical and administrative salaries, do the facts and circumstances meet the criteria to qualify as an exception as described by the OMB guidelines (see section 3.0)?
- 5.2 The justification must be submitted to the Department's SPA sponsored accountant on the form "Justification to Charge Normally F&A Costs as Direct".
- 5.3 Examples of exceptional circumstances:
 - 5.3.1 **Administrative/Managerial/Clerical Salaries/Wages/Benefits:** These costs may only be authorized for projects where the nature of the work performed requires an extensive amount of administrative or clerical support. Such costs might be appropriate for:
 - Large complex programs such as program projects and other agreements that entail assembling and managing teams of investigators from a number of departments or institutions.
 - Projects that involve extensive data accumulation, entry and analysis, surveying, tabulation, cataloging, searching literature and reporting.
 - Projects that require travel and meeting arrangements for large numbers or participants, such as conferences and seminars.
 - Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (this does not include routine progress and technical reports or scientific manuscripts).
 - 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.
 - 5.3.2 **General Purpose Equipment:** Computers, printers, and other selected items may be appropriate as a direct cost when the Principal Investigator is able to certify that the equipment is necessary for the unique scientific/technical tasks of the specific agreement. Example:
 - A computer that is only used to store and access a large scientific database may be appropriate as a direct cost. (A computer used for processing reports, manuscripts, correspondence and publications would not be appropriate. A copier normally services many diverse functions and projects and would not be appropriate as a direct cost.)
 - 5.3.3 **Membership Dues:** Appropriate as a direct charge on an exception basis only: (1) where membership is a mandatory requirement of the specific agreement; or (2) for

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training/fellowship programs where the membership is authorized for a trainee as part of the trainee's development/training program; or (3) where the membership is required/included as part of the registration costs for a conference and participation in the conference is directly related to the specific needs of the agreement.

5.3.4 **Office Supplies:** Extraordinary costs for office supplies used specifically for the technical/scientific needs of the agreement may be appropriate as a direct cost.

Examples:

- Paper, envelopes or computer paper, used as part of a survey mailed to participants for an epidemiological study may be appropriate. (Paper, envelopes or computer paper used as part of the administration of the project or for routine correspondence and publications would not be appropriate.)
- Three ring binders or notebooks used to organize class material for a workshop on a project that has the stated objective of presenting a three-month workshop for teachers would be an appropriate direct cost since the binders provide a direct benefit to the purpose of the project. (Binders or notebooks used to maintain general information would not be appropriate.)

5.3.5 **Postage:** Extraordinary costs for postage, Federal Express or courier directly related to the scientific/technical needs of the agreement may be appropriate. Examples:

- Costs of shipping project samples to a laboratory or a collaborator for analysis may be appropriate, as would costs for mailing large epidemiological surveys. (Mailing costs for routine correspondence or mailing proposals, manuscripts, or reports would not be appropriate.)
- Shipping costs for returning a piece of equipment may be appropriate if the equipment was originally purchased on the agreement.

5.3.6 **Subscriptions/Books/Periodicals:** Costs may be appropriate as a direct cost when the Principal Investigator is able to certify that the publication is a necessary requirement for the scientific/technical completion of the specific agreement and that it does not benefit other agreements or activities. (This situation would be very rare. Publications that provide a general benefit to research and teaching activities would not be a direct cost.)

5.3.7 **Telephone:** The cost of telephone lines may be appropriate for a project requiring extensive telephone surveying where the function of specified staff is to telephone respondents. Costs would only be permitted for the dedicated lines, not for all telephone services supporting the lab or office in which the project is based. (Local telephone charges are not appropriate where the purpose is to provide general telephone accessibility to the staff or a lab).

Pagers/cellular telephone costs may be appropriate for an individual whose primary task is to travel from location to location to gather data or conduct patient surveys and that person must maintain contact on a continual basis, as part of the specific needs of the agreement. Costs would be allowable only if the pager/cellular telephone is being used solely to support the project. (In the case of an individual who has multiple duties or works on several agreements or where the pager/cellular telephone is not an integral part of the specific tasks associated with the agreement, costs of a pager/cellular telephone would not be appropriate as a direct cost. If the pager/cellular telephone is needed

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primarily because the person needs to be reachable by staff, such costs may not be directly charged to a sponsored agreement.)

5.4 Cost Accounting Standards require consistent treatment of costs in “like circumstances” across an institution. Consequently, “unlike circumstances” must be demonstrated/justified if a cost that is normally considered F&A is to be budgeted, charged and reported. The following arguments cannot be used to demonstrate “unlike circumstances”:

- The sponsor has approved the item without review by the institution.
- The department does not have sufficient F&A cost money returned to support projects.
- The sponsor limits or will not pay F&A costs.
- The sponsor is willing to pay for the cost as a direct charge.

6.0 Responsibility:

Caution should be exercised in requesting and approving the direct charging of costs normally treated as F&A costs. Restricted cost categories and other inappropriate charges can be readily detected in audits, resulting in disallowances that must be reimbursed to the federal government. In recent months, several institutions have had sponsored program audit findings resulting from direct charging items that are normally considered F&A costs. The items charged were disallowed, and the institutions were required to return the funds to the federal government and lost the ability to use those funds for allowable charges.

- 6.1 Principal Investigators and their Departments are responsible for assuring that the costs assigned to projects are appropriate.
- 6.2 Requests for direct charging of items normally considered to be F&A should be addressed to the Division of Sponsored Program Administration.
- 6.3 Departments should not contact sponsors directly regarding fiscal/administrative matters.
- 6.4 The Division of Sponsored Program Administration shall be responsible for review and approval of exceptions (see Section 5.0) and shall have final decision authority.
- 6.5 Each administrative unit must provide sufficient institutional funds to funded investigators to allow them to purchase general purpose equipment, supplies and other items that fall into the F&A category.