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Approval: Office of the Vice President for Research

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Policy Statement
To provide guidance to meet the compliance standards for defining, charging and accounting for direct and facilities and administrative (F&A or indirect) costs to sponsored awards.

The Direct Charging Guidelines follow the Office of Management and Budget (OMB) Uniform Guidance for any Notice of Award issued to Brown University on or after December 26, 2014. Any awards issued prior to this date will follow OMB Circular A-21: Cost Principles for Educational Institutions. Notices of awards issued to Brown University after December 26, 2014 will state in the Terms and Conditions section whether the award is subject to Uniform Guidance.

➢ Brown University’s Position on Implementing – Direct Charging Guidelines
In accepting federal funds for sponsored projects Brown University agrees to abide by government regulations regarding the use of those funds.

Purpose of Policy
The purpose of this policy is to provide the institutional standard for determining how direct costs are budgeted in proposals and charged to grants, contracts, and other sponsored awards.
Overview of Direct and F&A/Indirect Costs

Direct Costs

Direct costs are those costs that can be identified specifically with a particular sponsored project, or that can be directly assigned to such activity relatively easily with a high degree of accuracy. In general, these costs fall into broad categories such as effort, materials, travel, equipment, etc. Direct costs items should be necessary and essential for project success. The items and/or services charged must reflect the amount that a reasonable person would pay, and must be directly allocable to the needs and purposes of the project.

Facilities and Administrative Costs (F&A: also referred to as Indirect Costs or Overhead)

F&A costs are those costs that cannot be directly assigned to a particular project, an instructional activity, or any other institutional activity with a high degree of accuracy. Typical costs may include but are not limited to: building utility costs, building and equipment depreciation, compensation of central administrative employees such as those working in Sponsored Projects or Human Resources, Department Administrators.

The University is allowed to apply F&A costs to federal grants and contracts on an average rate basis to help offset infrastructure costs. The University negotiates an F&A 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. 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. The cost pools include obvious items, such as utilities, depreciation, library services, sponsored project administration, and a portion of departmental and central personnel, to be assigned to the institution’s research infrastructure costs. The cost pools 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 items as a part of the F&A rate, those cost items normally cannot be charged as direct costs.

Allowability Requirements

Summary of Criteria for Determining Allowability of Direct Costs (Uniform Guidance §200.403)

For purposes of determining whether it would be appropriate to budget or charge a certain direct cost to a sponsored project, principal investigators, department administrators and grant/contract accountants should be familiar with the criteria used to define allowable direct costs. Direct Costs must:

A. Be necessary and reasonable for the performance of the federal award. The cost/item must be necessary to the conduct of the project. For example, a more expensive item may not be necessary if a less expensive item will meet the needs of the project.
B. Be allocable to the project and project goals.
C. Conform to any limitations or exclusions in the Uniform Guidance/A-21 or in the federal award.
D. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of Brown University.
E. Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost.

F. Be determined in accordance with generally accepted accounting principles (GAAP)

G. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or a prior period.

H. Be adequately documented.

**Typical allowable direct costs include:**

- **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.

- **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.

- **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.

- **Lab 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.

- **Equipment:**
  Equipment used only for research, medical, scientific, or other technical activities.

- **Telephone:**
  Long distance charges necessary to carry out the objectives of the sponsored project.

- **Travel:**
  Domestic and foreign travel required to carry out the objectives of the sponsored project.

**Unallowable Costs**

Not all charges are allowable on Federal awards. Typical unallowable charges include:

- Alcohol
- Alumni/ae Activities
- Audit Services
- Bad Debt
- Lobbying
For a full listing of allowable and unallowable costs, please refer to Uniform Guidance §200.420 – §200.475.

**Allocable (Uniform Guidance §200.405)**
A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.

**Reasonable (Uniform Guidance §200.404)**
A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

**Consistency**
Consistency means that Brown University manages costs that are reimbursable by the federal government in two ways:

1. Those that are allowable to be *directly charged* to a sponsored project (identified specifically with a particular sponsored project, or that can be directly assigned to such activity relatively easily with a high degree of accuracy) such as a Principal Investigator’s salary or a project-specific piece of equipment.
2. Those that are allowable to be included in the University’s negotiated Facilities and Administrative (F&A) base, which includes broad categories of costs that support sponsored research but cannot be clearly identified with a specific project or program. Examples include use of facilities, department basic costs of operations (paper, copying, staff support, etc.)

Because Brown receives federal reimbursement for both direct costs associated with a single project, and for F&A costs through its negotiated F&A rate, extra care must be taken to ensure that all costs are treated and billed consistently. In other words, not billed directly and also billed through F&A recovery.

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**Specific Items of Cost**

The OMB Uniform Guidance includes updated language to reflect the treatment of Administrative and Clerical Staff Salary; Materials and Supplies; Computing Devices; and Participant Support Costs as follows below:

1. **Administrative and Clerical Staff Salaries**

   Generally these costs should not be direct charged to federal awards, however, per Uniform Guidance §200.413 (c), direct charging of Administrative and Clerical Staff Salary may occur if all of the following conditions are met:
   - Administrative or clerical services are integral to a project or activity;
   - Individuals involved can be specifically identified with the project or activity;
   - Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
   - The costs are not also recovered as indirect costs.

2. **Materials and Supplies**

   a. **Supplies:**

      Per Uniform Guidance §200.314, If there is a residual inventory of unused supplies exceeding $5,000 in total aggregate value upon termination or completion of the project or program and the supplies are not needed for
any other Federal award, Brown University must retain the supplies for use on other activities or sell them, but must, in either case, compensate the Federal Government for its share.

b. Computing Devices:
Per Uniform Guidance §200.453, in the specific case of computing devices, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award. Computing devices (laptop and desktop computers), defined as supplies when the cost is less than the University’s capitalization threshold of $5,000. Computing devices may be direct charged to a project or activity under the following circumstances:

- The machines are essential and allocable to the project in that they are necessary to acquire, store, analyze, process, and publish data and other information electronically, including accessories for printing, transmitting and receiving, or storing electronic information.
- The project does not have reasonable access to other devices or equipment that can achieve the same purpose. Devices may not be purchased for reasons of convenience or preference.

Principal Investigators (PI) are responsible for determining whether or not the device is essential and to what extent the cost of the device is allocable to the sponsored project. PIs and departments should maintain documentation that describes how the proposed computing device meets the above requirements.

c. Participant Support Costs:
Per Uniform Guidance §200.456, Participant Support costs are allowable with the prior approval of the Federal awarding agency. These costs are defined under §200.75 as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with conferences or training projects.

Participant support costs are not routinely allowed on research projects but can be charged if the project includes an education or outreach component and the agency approves such costs.

Roles and Responsibilities
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.

Requests for direct charging of items normally considered to be F&A should be addressed to the Office of Sponsored Projects.

Departments should not contact sponsors directly regarding fiscal/administrative matters.

The Office of Sponsored Projects shall be responsible for review and approval of exceptions and shall have final decision authority.

PRINCIPAL INVESTIGATORS and DEPARTMENT ADMINISTRATORS

- Manage project funds in compliance with sponsor requirements.
● Ensure appropriateness and accuracy of costs on a sponsored project.
● Responsible for ensuring compliance with any cost limitations imposed by sponsors.
● Exercise sound judgment in identifying situations where “unlike or unusual” circumstances exist and ensure that an adequate process is in place to document the “unlike or unusual” circumstances.

OFFICE OF SPONSORED PROJECTS

● Maintain communications with funding agencies to assure understanding of agency requirements.
● Develop and implement policies, procedures, and training sessions in accordance with sponsor regulations.
● Review proposals, awards, and other associated documents to ensure compliance with policies and procedures.
● Responsible for ensuring compliance with any costing limitations imposed by sponsors.

Other Resources

➢ OMB Circular A-81 (2 CFR PART 200)
➢ OMB Circular A-21 (2 CFR PART 220)

Contacts

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Revision History

● Version 2 - Revised – August 24, 2016

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