

Direct Charging Guidelines

1.0 Purpose

To provide guidance to meet the compliance standards as set forth in Office of Management and Budget (OMB) Circular A-21 (A-21) *Cost Principles for Educational Institutions* for defining, charging and accounting for direct and facilities and administrative (F&A or indirect) costs to sponsored awards.

2.0 Overview of Direct and F&A/Indirect Costs:

Federal sponsors require that direct costs of research be related to specific actions supported by a grant.

Direct Costs are those costs that are:

- Allowable-as specified by sponsored regulations (A-21 Section J).
- Allocable-expenses can be allocated to the sponsored project based on benefit derived, or other equitable relationship.
- Reasonable-a prudent person would have purchased this item and paid this price.
- Consistently Treated-like expenses must be treated the same in similar circumstances.

Facilities & Administrative Costs (F&A; formerly indirect costs) are those costs that are incurred for common or joint objectives and therefore cannot be easily identifiable with specific projects.

- The University is allowed to apply F&A costs to federal grants and contracts on an average rate basis to help offset infrastructure costs.
- As required by A-21, 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 program 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.

A-21 does allow these expenses to be charged directly to a sponsored project in "unlike or unusual" 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 from A-21 Exhibit C are included in Appendix B.

3.0 Guidelines

Brown University (University) follows the general guidelines in sections D and E of A-21 in determining the treatment of costs as direct or indirect. The University's F&A costs are consistent with the definitions of specific F&A cost categories in section F 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.

3.1 Cost Categories:

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

3.1.1 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 2.0 above, i.e., allowable, directly benefiting the project, reasonable, and consistently treated.

3.1.1.1 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.

3.1.1.2 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.

3.1.1.3 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.

3.1.1.4 Special Purpose Equipment:

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

3.1.1.5 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.

3.1.1.6 Telephone:

Long distance charges necessary to carry out the objectives of the sponsored project.

3.1.1.7 Travel:

Domestic and foreign travel required to carry out the objectives of the sponsored project.

3.2 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.

3.2.1 Accounting and audit costs.

3.2.2 Computer Services or Use Fees:

Routine, standard computer services, hookups and networking costs, including IT networking costs are normally F&A.

3.2.3 Administrative and Clerical 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.

3.2.4 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, copiers) and furnishings (desks, chairs, file cabinets), and reproduction and printing equipment.

3.2.5 Legal services, insurance, general recruitment advertising,

3.2.6 Repairs and maintenance of general purpose equipment (see 3.2.4 above) and facilities.

3.2.7 Supplies:

Office supplies (printers, scanners, paper, toner, post-its, markers, hole punchers, binders, folders, forms,) parts and supplies associated with repair and maintenance of general purpose equipment and facilities, lab coats, scrubs, general purpose books and reference materials.

3.2.8 Library costs/collections/acquisitions.

3.2.9 Travel related to administrative activities.

3.2.10 Postage (including express delivery, etc.); basic telephone service, installation, repair, and line charges; fax line charges; cellular phone and other wireless device purchase and use fees; utilities.

3.2.11 Dues/memberships in professional and technical organizations, subscriptions (other than those specifically required for the performance of the sponsored activity)

3.3 Unallowable Direct or as F&A:

The following types of costs **may not** be charged to a federally sponsored agreement either **directly** or as **F&A** costs. NOTE: There are exceptions to some of the categories listed.

3.3.1 Advertising, Public Relations and Promotional Costs:

Institutional promotion of University is unallowable. Some types of advertising, such as recruitment of study patients or study personnel, may be allowable.

3.3.2 Alcoholic Beverages

3.3.3 Alumni Activities

3.3.4 Bad Debts

3.3.5 Charitable Contributions, Donations or Gifts (cash, services or property)

3.3.6 Commencement and Convocation Expenses

3.3.7 Contingency Provisions

3.3.8 Entertainment Costs

3.3.9 Fines and Penalties

3.3.10 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.

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, must be provided in order to directly charge food to a sponsored agreement.

3.3.11 Fund Raising and Investment Management Costs

3.3.12 First class or Other Non-Coach Class Travel

3.3.13 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.

3.3.14 Personal use of Goods or Services.

3.3.15 Student Activity Costs

4.0 Procedures for Approval of Exceptions:

4.1 Unlike or Unusual Circumstances

Costs normally treated as F&A costs cannot be charged directly to a sponsored project unless the specific activities related to the project are clearly different in type or significantly different in scale from the University norm. Costs normally charged as F&A costs may be charged directly when "unlike or unusual" circumstances exist. The costs listed in section 3.2 may be included as direct costs in the proposal budget if the intended use is for project specific activities (i.e. scientific/technical needs of the project) that are clearly justified in terms of their relevance to the methods used in conducting the research. When costs that are normally F&A costs are planned and used for the project's technical scope of work, they must be specifically identified, included and justified in the budget, and not specifically disapproved by the sponsor.

- **NOTE:** Federal regulators have stated that sponsor approval of a budget does not constitute approval of the specific line items. The sponsor assumes that the University has 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 is no way for the sponsor to make a determination of allowability because of these variables; therefore, it is the University's responsibility to exercise this judgment.

If it is determined 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 Office of Sponsored Projects, the Principal Investigator may request an exception to direct charge the costs. In accordance with A-21 requirements, the University requires written justification to be provided to the Office of Sponsored Projects for an item normally considered an F&A cost to be directly charged to a sponsored project.

4.2 Justification Guidance

The following represents key questions related to the inclusion and justification of normally F&A costs on sponsored projects. Proposal budget justification or justification submitted to the Office of Sponsored Projects must specifically address the following:

4.2.1 How does the cost/charge provide a direct benefit to the purpose or object of the project; i.e. what is the benefit derived by the project as a result of cost being directly charged to the project?

4.2.2 How will the proposed cost/charge be accurately documented and assigned to the project with a high degree of accuracy; i.e. can it meet the definition of a direct cost?

4.2.3 The cost category, e.g. supplies, may imply that the items are being used for administrative purposes. How will these items be used to meet the technical needs of the project and what is their relevance to the methods used in conducting the project?

4.2.4 For those job titles or payroll classification that may imply administrative work is being conducted. How will the nature of the work differ from the general administrative work conducted for all projects and why are the charges necessary to meet the technical purpose of the award?

4.2.5 Because all projects require a certain amount of correspondence, account reconciliation, phone calls, office supplies, etc, how will the proposed cost/charge differ from the standard level of support expected for all projects?

4.3 Examples of circumstances where costs normally treated as F&A may be directly charged:

4.3.1 Administrative/Clerical Salaries/Wages/Benefits:

These costs may only be directly charged to projects where the nature of the work performed requires an extensive amount of administrative and/or clerical support. In these cases, the effort must be required to complete the specific and distinctive requirements of a particular sponsored project (or group of sponsored projects) and the effort must not be related to routine administrative work that benefits multiple activities of the department/center. (See Appendix B for A-21 guidance.)

Examples:

- The nature of the work performed under a particular sponsored project is directly related to the technical substance of the project; e.g. individual(s) collecting data, maintaining participant data, conducting phone surveys, or scheduling visits.
- NSF research center, NIH program project grant, or NASA training center grant where the administrative/clerical effort is documented in the proposal's budget justification as part of the scope of work.
- Projects that require travel and meeting arrangements for large numbers or participants, such as conferences and seminars.
- Projects principal focus is the preparation and production of manuals and large reports, books and monographs (**NOTE: this does not include routine progress and technical reports or scientific manuscripts**).
- 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 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.

4.3.2 General Purpose Equipment:

Computers, printers, and other 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.

Examples:

- A computer that is only used to store and access a large scientific database.

- A computer used for processing reports, manuscripts, correspondence and publications would not be appropriate.
- A copier/printer normally services many diverse functions and projects and would not be appropriate as a direct cost.

4.3.3 **Membership Dues:**

Memberships in scientific and professional organizations may not be included in the budget or directly charged unless:

- the membership is a mandatory requirement of the specific agreement; or
- 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; or
- the membership is the only means of obtaining a specific journal or periodical directly related to the project; or
- the membership results in reduced conference registration fees or other associated costs and is charged to the same sponsored project (savings must be greater than or equal to the membership cost).

4.3.4 **Office Supplies:**

Office supplies that are normally used in the general administrative support of a project may not be included in the budget or directly charged to the award.

Extraordinary costs for office supplies that are used for project specific activities outlined in the proposal may be included in the budget and directly charged to the project.

Examples:

- Paper, envelopes or computer paper, used as part of a survey mailed to participants for an epidemiological study.
- 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.
- Data storage media if the project involves extensive data accumulation and analysis.

4.3.5 **Postage:**

Extraordinary postage costs, Federal Express, or courier may be included in the budget and directly charged to the project when related to the conduct or scientific/technical needs of the project. Mailing costs for routine correspondence or mailing proposals, manuscripts, or reports would not be appropriate.

Examples:

- Costs of shipping project samples to a laboratory or a collaborator for analysis; or
- Costs for mailing large surveys; or
- Shipment of research materials and deliverables to perform the project's scope of work; or
- Correspondence with the sponsor and/or project participants; or
- Dissemination of surveys and/or materials produced as a result of the project activities; or
- Shipping costs for returning a piece of equipment may be appropriate if the equipment was originally purchased on the agreement.

4.3.6 **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.

NOTE: This situation would be very rare. Publications that provide a general benefit to research and teaching activities would not be a direct cost.

4.3.7 Local Telephone Costs:

Local telephone costs associated with conducting routine business of the project (i.e. provide general telephone accessibility to the staff or lab) may not be included in the budget or directly charged to a project. The cost of telephone lines, including data lines, modems, and telephones may be directly charged if required to:

- Conduct surveys; e.g. a project requiring extensive telephone surveying where the function of specified staff is to telephone respondents; or
- Maintain contact with project activities conducted at remote locations. Costs would only be permitted for the dedicated lines, not for all telephone services supporting the lab or office where the project is based.

4.3.8 Cell Phones, Pagers, Other Wireless Devices (e.g. Blackberry):

Cell phone, blackberry, and pager expenses are considered "local telephone costs" and may not be included in the budget or directly charged if they are used to conduct routine business of the project. In cases where the device is an integral part of the specific tasks associated with the agreement, costs would be an appropriate direct cost.

Examples:

- Device needed to maintain contact at remote sites or for safety reasons; or
- Costs of device 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.
- Devices needed primarily because the person needs to be reachable by staff may not be directly charged to sponsored awards.
- Device needed because an individual has multiple duties and works on several projects may not be directly charged to an award.
- Device is not an integral part of the specific tasks associated with the award costs cannot be directly charged to an award.

4.3.9 Copy Costs/Photocopies:

Ordinary photocopies that are used in general administrative support of a project may not be included in the budget or directly charged. In cases where the copy costs associated with a project are extraordinary, an integral part of the specific tasks associated with the agreement, and can be tracked, the costs would be an appropriate direct cost.

Examples:

- Project requires the dissemination of surveys and/or materials produced as a result of the project activities and copy costs associated with producing these materials can be separately tracked.
- Copy costs associated with the administration of the project or for routine correspondence and publications are not allowable direct costs.

4.4 Cost Accounting Standards for Educational Institutions-CAS 501-Consistency in estimating, accumulating, and reporting costs

4.4.1 Cost Accounting Standards require consistent treatment of costs in "like circumstances" across the University. Consequently, "unlike circumstances" must be demonstrated/justified if a cost that is normally considered F&A is to be budgeted, charged and reported.

4.4.2 The following arguments cannot be used to demonstrate "unlike circumstances":

- The sponsor has approved the budget.
- 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 said they will pay for the cost as a direct charge.

5.0 Roles and 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.

5.1 Principal Investigators and their Departments are responsible for assuring that the costs assigned to projects are appropriate.

- The University expects the Principal Investigator or designee to
 - exercise sound judgment in identifying situations where "unlike or unusual" circumstances exist;
 - ensure that an adequate process is in place to document the "unlike or unusual" circumstances.

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

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

5.4 The Office of Sponsored Projects shall be responsible for review and approval of exceptions (see Section 4.0) and shall have final decision authority.

Appendix A: Definitions

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.

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.

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.

Allowable Costs: In general, expenses are chargeable to sponsored projects only if they are:

- **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.
- **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.
- **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.
- **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 3.1, Cost Categories).

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.

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.

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

Cost Sharing. Project expenses that are not reimbursed by the sponsor.

APPENDIX B: EXHIBIT C TO OMB CIRCULAR A-21

Examples of “major project” where direct charging of administrative or clerical staff salaries may be appropriate.

- **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.
- 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.

Guidelines for Directly Charging Meals to Sponsored Awards

Brown University's Business Meals and Hospitality Policy provides general guidelines for identifying appropriate University business expenses relative to meals. (http://www.brown.edu/Administration/Controllers_Office/policies/meals.html)

This policy identifies how and when these expenses may be charged to various University accounts in order to ensure the proper use of University resources and compliance with federal regulations. The policy also provides a means to document the business purpose of the activity in accordance with proper tax and accounting guidelines. (http://www.brown.edu/Administration/Controllers_Office/forms/mandh.pdf)

Charging meals to a federal award is allowable in certain circumstances. Meals for subject participants and people in travel status associated with grant business are allowable. All other meals need to meet certain criteria for being necessary and reasonable for the benefit of a project related goal/aim.

In order to be an allowable direct charge the following are a set of specific scenarios under which certain meals are considered allowable or unallowable to a grant.

We have a federal grant that requires us to bring subject participants in for all day screenings and testing. Is the cost of the lunch provided to participants an allowable direct cost on the federal grant?

Yes – the cost of meals for subject participants is allowable on a Federal Grant.

The PI is taking a post-doc recruitment candidate out to dinner to interview them for an open position on the grant. Can the cost of the dinner be charged to the grant?

Yes and No - the cost of the meal for the candidate may be charged to the grant, but the cost of the meal for the PI is not allowable – he or she is not on travel status.

We have a grant that requires we coordinate and host a Conference. Can we charge the cost of providing refreshments and/or meals to the grant during the conference?

Yes – the cost of meals/refreshments during a Conference/Seminar/Meeting with a formal agenda and participants from different locations are allowable.

Note: It is not allowable to charge the grant for Brown University staff/faculty meals when taking the out of town participants to dinner following the all day meeting.

My PI holds weekly lab meetings to discuss the progress on the grant. Can the cost of the catered lunch be charged to the grant?

No – the cost of meals/refreshments for routine lab meetings are not allowable.

My PI recently took a trip to attend a conference in Cambridge, MA. During the trip, the PI had dinner with a colleague/collaborator from Harvard, a colleague/collaborator from Duke and a friend from Vanderbilt. They spent a large amount of time discussing their research projects. Can the cost of the meal be charged to the grant?

The cost of the PI's meal is allowable as he/she is in travel status, however, the cost of the collaborator/colleague's meal depends on if he/she is also in travel status and the nature of their relationship to the project being charged. In this case, the collaborator from Harvard is not in travel status so the cost of the meal could not be charged to the project. The Duke collaborator's meal may be allowable if he/she is devoting effort to the grant being charged (via a sub-agreement or consulting agreement from WU) and attending the conference for the purpose of that grant. The Vanderbilt friend's meal is not allowable.

A consultant is coming in from out of town to do some work for a grant. While here, the PI plans to take the consultant out to dinner to discuss the progress of the project. May the cost of the meal be charged to the grant?

The cost of the dinner for the consultant would be allowable to charge to the grant as the consultant is in travel status. The cost of the dinner for the PI or any other Brown University faculty/staff attending the dinner would NOT be allowable as they are not in travel status.