



### Policy 4.4.5

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Section 5, Direct Charges on Externally-Sponsored Projects

Approval Authority: Board of Regents

Responsible Executive: University Controller

Responsible Office(s): Sponsored Programs/Sponsored Programs  
Accounting

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## Direct Charges on Externally Sponsored Projects

### Policy Statement

This policy sets forth conditions for allowable costs charged to grants or sponsored agreements administered by Eastern Kentucky University. All expenditures on sponsored agreements must meet conditions for allocability, allowability, reasonableness, and consistency established under federal guidelines as outlined in the policy below.

#### Purpose

This policy sets forth criteria for determining costs that may be directly charged to sponsored agreements and costs that should be treated as indirect costs.

### Entities Affected by the Policy

- Departments
- Colleges
- Units involved with externally-sponsored projects

### Policy Background

The University receives a substantial portion of its funding in the form of contracts, grants, and other agreements with the federal government. As a condition of receiving this funding, the University agrees to follow federal policies, including Office of Management and Budget (OMB) Circular A-21 (*Principles for Determining Costs Applicable to Grants, Contracts and Other Agreements with Educational Institutions*). The Circular provides definitions and examples of direct, indirect, allowable, and unallowable costs as well as acceptable conditions for applying costs to sponsored projects and programs.

Circular A-21 includes the addition of Cost Accounting Standards (CAS). The CAS regulations require that:

- i) Practices used to estimate costs in proposals must be consistent with the practices used in accumulating and reporting those costs;
- ii) Costs are to be treated consistently as either direct costs or indirect costs.

EKU must comply with the following CAS requirements, which are an integral part of A-21:

- CAS 501: Consistency in Estimating, Accumulating and Reporting Costs
- CAS 502: Consistency in Allocating Costs Incurred for the Same Purpose
- CAS 505: Accounting for Unallowable Costs
- CAS 506: Cost Accounting Periods

## Criteria

All funds must be spent in accordance with University policy, applicable state and federal law, and sponsor terms and conditions. Principal Investigators (PIs) are responsible for the management and administration of their awards including all expenditures of project funds. This policy is primarily determined by cost principles contained in Office of Management and Budget (OMB) Circular A-21.

Only allowable, allocable, and reasonable technical and administrative costs may be charged directly to sponsored agreements. Direct costs must be given consistent treatment. Consistent treatment occurs when, in like circumstances, an institution always treats an expense as either a direct or an indirect cost. For federally sponsored projects, including federal flow-through awards or other awards covered by OMB Circular A-21, administrative costs are normally included as indirect costs, but *may* be charged directly to a sponsored project under certain circumstances. Awards not covered by OMB Circular A-21 may have administrative costs directly charged to them provided they are allowable, allocable, and reasonable; are accounted for properly; and are not specifically prohibited by the award terms and conditions or other campus policy.

## Procedures

### **Determination of Allowable, Allocable, and Reasonable Cost Transfers**

1. To determine whether a particular cost is allowable, allocable, and reasonable, apply the “prudent person” test. If the answer to any of the following questions is “no” then the cost probably should **not** be charged to the project:
  - i) Is the cost generally accepted as necessary for the performance of the technical scope of the project or similar projects?
  - ii) Does the cost have an “arms-length” relationship between the investigator and merchants or subcontractors? (For example, goods and services should not be purchased from a friend or relative.)
  - iii) Would you be comfortable explaining to someone outside the University why you charged this item to your project?
  - iv) Is charging this cost consistent with EKU's policies, procedures, and practices?
2. For cost transfers to sponsored awards, it is the *purpose* of the charge, not necessarily the type of charge, that determines its allowability. Costs that do not meet these tests may need to be charged to non-sponsored funds.

### **Determination of the Nature of the Direct Cost: Technical or Administrative**

- Technical costs are those that provide direct benefit to a sponsored project's scientific or technical scope of work. Some examples of common technical direct costs are the salaries, wages, and benefits of faculty, research staff, pre- and postdoctoral students, technicians, and laboratory assistants needed to perform the technical scope of the award.
- Technical costs shall be charged directly to all sponsored projects whenever they can be specifically identified to a particular sponsored project and provide technical benefits as described in the project's scope of work.
- Administrative expenses are the salaries, wages, and benefits of those employees who perform non-technical support activities, plus supplies and other expenses used to provide clerical or administrative project support.
- Administrative costs are normally classified as indirect costs, but *may* be charged directly to sponsored projects under certain circumstances. Some examples of common administrative costs are salaries, wages, and benefits of clerical and administrative staff; stationery supplies; routine copying; postage; basic local telephone services; and general purpose equipment such as computers, typewriters, and printers.
- All technical costs are allowable unless specifically disallowed. All administrative charges are unallowable unless specifically allowed. Note: When costs that are normally administrative (e.g.,

office supplies, postage, local telephone calls) are planned and used for a project's *technical* scope of work, they qualify as technical costs and can be charged directly to sponsored awards provided they also meet the other criteria (allocable, specifically identified to and benefit the project, explicitly included and justified in the budget, not specifically disapproved by the sponsor).

- Technical and administrative costs must be given *consistent treatment* (see definitions).

#### **Determination of Allowable Administrative Direct Costs**

- OMB Circular A-21 requires that administrative expenses normally be treated as indirect costs. However, they may be charged directly to federally sponsored agreements when all of the following criteria are met:
  - The administrative expense is for the performance of tasks that are significantly greater than the routine level of such services normally provided by administering departments or Organized Research Units, and are in support of major activities or projects, such as those described in the Office of Management and Budget (OMB) Circular A-21.
  - The administrative expense can be identified specifically with a particular sponsored project or activity, or can be directly assigned to the project with relative ease and with a high degree of accuracy and provide direct benefits to the project.
  - The "Budget Justification" section of the proposal should state that the costs are normally treated as indirect by the institution but are being requested due to a special purpose or circumstance; an explanation of the special circumstance should be clearly outlined in the "Budget Justification."
- The administrative expense is explicitly listed in the approved proposal budget, is not specifically disapproved in the award notice, and is explicitly justified in the proposal budget.

#### **Rebudgeting of Awards for Direct Administrative Costs**

1. Direct charging of administrative costs should be justified in the proposal submitted to and approved by the sponsoring agency.
2. If the PI does not include direct charges of administrative costs in the proposal, the PI may rebudget to include clerical and administrative salaries and other costs normally considered indirect only if all of the tests of allowability are met and written approval by the sponsor is provided. The cost must still meet all other tests of allowability.

#### **Distribution of Allowable Direct Costs between Two or More Activities**

1. On occasion, an item of cost may benefit more than one project or activity. Allocating costs between projects or activities requires a reasonable and documented methodology. For example, a cost can be distributed to projects or activities using a common characteristic such as head count, square feet, or other criterion that reflects the benefits received by each project. Based on actual usage, a cost can also be distributed by means of a log sheet.
2. For all methods, the criterion used for redistribution must be consistently applied to all benefiting projects or activities regardless of the project's or activity's available funding. Documentation for any redistribution methodology is maintained in departmental files and must be accessible.

#### **Documentation Requirements for Direct Charges to all Sponsored Agreements**

Project Directors are responsible for the management and administration of their contracts and grants. They must abide by all applicable federal and state laws, University policies, and sponsor terms and conditions. PIs must assure the appropriateness of all expenditures of project funds. PIs or their departmental business officers must assure that adequate supporting documentation relating expenditures to the purpose of the award is accessible. Some examples of supporting documentation are:

- a. Approved budget & budget justification
- b. Effort reports
- c. Timesheets and job cards
- d. Reallocation methodology
- e. Rebudgeting documentation

## Definitions

<b>Administrative costs</b>	The salaries, wages, and benefits of those employees who perform nontechnical support activities, plus the supplies and other expenses used to provide clerical or administrative project support
<b>Allocable costs</b>	Costs that provide direct benefits to the project and can be specifically identified to a project or activity with a high degree of accuracy. A cost is allocable to a sponsored agreement if it advances the work sponsored under the agreement; if it benefits the sponsored agreement in proportion to the charge; and if it is necessary to the overall operation.
<b>Allowable costs</b>	Costs must be directly related to the sponsored agreement, must benefit the sponsored agreement in the proportion to the amount charged, and must conform to the policies and procedures of the institution. The cost must be necessary for the performance of the project. A particular cost may be allowable on one project, where it is needed for performance, but be unallowable on another project where no similar performance requirement exists. Although OMB Circular A-21 may not list a particular type of cost as unallowable, if it does not meet the further tests of allowability described in the procedures section below it will be deemed unallowable.
<b>Consistent treatment</b>	Occurs when a cost incurred for the same purpose in like circumstances is treated consistently as either a direct or an indirect cost
<b>Direct costs</b>	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
<b>Facilities and Administrative</b>	(also referred to as F&A, overhead, or indirect costs) Costs incurred for common or joint objectives and which, therefore, cannot be identified readily and specifically with a particular sponsored project, instructional activity, or other institutional activity
<b>Federal Flow-Through Funds</b>	Funds that originate from the federal government, but whose granting entity is not necessarily the federal government. For example, many state awards are funded with federal dollars. Recipients of nonfederal awards should always check the award document to determine whether federal flow through dollars fund the award
<b>Major project or activity</b>	A project or activity that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by administering departments
<b>Reasonable costs</b>	Costs that reflect the actions a prudent person would take under the circumstances prevailing at the time the decision was made to incur the costs
<b>Supporting documents</b>	Documents that relate expenditures to the purpose of the award. Examples include financial journals, invoices, payroll records, effort reports, or rebudgeting documents
<b>Technical costs</b>	Costs that can be specifically identified and provide direct benefit to a sponsored project's scientific or technical scope of work
<b>Unallowable costs</b>	Costs explicitly identified in OMB Circular A-21 as unallowable, or those that do not meet the conditions for allowability
<b>University</b>	Eastern Kentucky University

## Responsibilities

<b>Controller's Office</b>	<ul style="list-style-type: none"> <li>▪ Provide guidance on policy interpretation and implementation</li> </ul>
<b>Project Directors</b>	<ul style="list-style-type: none"> <li>▪ Assure that costs in proposal budgets are appropriate for the scope of work and are justified</li> <li>▪ Review costs charged to sponsored awards for compliance with sponsor and University policy</li> <li>▪ Determine the appropriateness of and provide justification for rebudgeting actions</li> </ul>
<b>Sponsored Programs</b>	<ul style="list-style-type: none"> <li>▪ Assure that costs in proposal budgets are appropriate for the scope of work and are justified</li> <li>▪ Review proposal budgets for justification of costs</li> <li>▪ Provide guidance on policy implementation</li> <li>▪ Monitor costs in proposal budgets for consistent treatment</li> </ul>
<b>Sponsored Programs Accounting</b>	<ul style="list-style-type: none"> <li>▪ Monitor costs charged to sponsored awards for compliance with sponsor and University policy</li> <li>▪ Provide guidance on policy implementation</li> <li>▪ Provides ongoing training opportunities for faculty and staff</li> <li>▪ Monitors costs charged to sponsored awards for consistent treatment</li> </ul>

## Violations of the Policy

Policy compliance is the joint responsibility of all involved. If non-compliance issues are identified by the Office of Graduate Education and Research, corrective action may be necessary and shall be completed following consultation with the Principal Investigator, respective Dean, Department Chair, and/or Financial Manager. Corrective action may include, but is not limited to, movement of unallowable or inappropriate charges from grant accounts to departmental, college, or other university accounts, suspension of grant accounts, and/or withdrawal of a proposal or award. Any actions deemed necessary in response to policy non-compliance may be appealed to the Provost and/or Executive Vice President for Administration.

## Interpreting Authority

- University Controller

## Statutory or Regulatory References

- OMB Circular A-21: <http://www.whitehouse.gov/omb/circulars/a021/a021.html>

Relevant Links

[Sponsored Programs website](#)

Policy Adoption Review and Approval

<u>Date</u>	<u>Entity</u>	<u>Action</u>
October 6, 2008	Faculty Senate	Recommended Support
December 19, 2008	President Doug Whitlock	Recommended Support
<b>January 26, 2009</b>	<b>Board of Regents</b>	<b>Adopted</b>