Purpose of Guidelines

The University's ability to obtain federal grants and contracts depends on its performance in meeting federal requirements. OMB Circular A-21: Cost Principles for Educational Institutions presents Cost Accounting Standards and other requirements with which University personnel responsible for charging expenses to any University account need to understand and comply. This document is intended specifically to provide guidance about what costs may or may not be charged to grant and contract accounts.

Who is Responsible

Responsibility for following these guidelines lies primarily with Principal Investigators or Project Directors, their Department Chairs or other direct supervisors, and unit-level fiscal personnel with the general guidance and oversight of the colleges, schools and divisions. Applicable University Sponsored Programs Office or other designated personnel are responsible for providing general guidance and technical assistance. The University of Maine System administration is responsible for providing guidance through administrative practice letters and coordinating compliance through periodic internal and external audits.

Failure to follow these guidelines may have serious consequences, including disallowed costs, which would require reimbursement to the sponsor from the departmental closing account; increased federal oversight, monitoring, and audit; and loss of future federal funding.

Definitions

Direct Costs

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&A 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 of all activities of the institution.

Facilities and Administrative Costs

F&A costs (formerly known as indirect costs) are those costs 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. F&A costs are allocated to the major functions of the University in proportion to the use of the University’s resources. Where the University treats a particular type of cost as an F&A cost of sponsored agreements, all costs incurred for the same purpose in like circumstances must be treated as F&A costs.
F&A costs are broad categories of costs. "Facilities" is defined as depreciation and use allowances, interest on debt associated with certain buildings, equipment and capital improvements, operation and maintenance expenses, and library expenses. "Administration" is defined as general administration and general expenses, departmental administration, sponsored projects administration, student administration and services, and all other types of expenditures not listed specifically under one of the subcategories of Facilities (including cross allocations from other pools).

Sponsored Agreement

A sponsored agreement means any grant, contract, or similar agreement between the University and an extramural sponsor, in which the University agrees to carry out a specific scope of work and the sponsor agrees to pay part or all of the costs of doing so. Such scope of work may be carried out directly by the University or subcontracted, in whole or in part, as appropriate.

Consistent Allocation of Costs Incurred for the Same Purpose

The University must ensure that each type of cost is allocated only once and on only one basis to any sponsored agreement or other cost objective. The criteria for determining the allocation of costs to a sponsored agreement or other cost objective should be the same for all similar objectives. Adherence to these cost accounting concepts is necessary to guard against the overcharging of some cost objectives and to prevent double counting.

Consistency in allocating costs incurred for the same purpose requires that all costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives.

What may be Charged to a Sponsored Agreement

The University may directly charge costs that are reasonable, allocable, and not limited or excluded by Circular A-21 or the specific terms of the sponsored agreement. The University must consistently treat certain kinds of costs as F&A; therefore, such costs may not be directly charged. The cost of a sponsored agreement is comprised of allowable direct costs, plus the allocable portion of the allowable F&A costs of the University.
To be an **allowable** cost, the cost must be:

1) **Reasonable** - A prudent person would have purchased the item and paid the given price.

2) **Allocable** - Expenses are chargeable or assignable to a sponsored agreement according to relative benefits received or other equitable relationship. Therefore, a cost is allocable to a sponsored agreement if:
   a) It is incurred solely to advance the work under the sponsored agreement, or
   b) It benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated using reasonable methods, or
   c) It is necessary to the overall operation of the institution, and is assignable (under the principles of Circular A-21) in part to sponsored projects.

   Any costs allocable to a particular sponsored agreement may **not** be shifted to other sponsored agreements in order to meet fund deficiencies, to avoid restrictions imposed by law or by terms of the sponsored agreement, or to meet other reasons of convenience.

3) **Not unallowable** - The nature and amount of the cost must not be limited or excluded by Circular A-21 or the sponsored agreement.

**Part A. Direct Costs**

Costs which are generally charged directly to sponsored programs include:
- salaries and wages of technical staff (i.e., those who directly contribute to the project's technical purpose; generally do not include clerical support),
- fringe benefits,
- graduate student assistantships and tuition,
- equipment (i.e., items costing $5,000 or more),
- long distance phone charges,
- travel costs, and
- materials and supplies (e.g., project specific supplies and materials; laboratory supplies; data processing supplies, books, periodicals, and other reference material; equipment costing less than $5,000; and software).

Note: Time and effort reports document that salaries and wages charged to sponsored agreements are reasonable in relation to work performed. Such reports are generated at the System Office and sent to the Sponsored Programs or other appropriate office for distribution to the applicable departments. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports must be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.
Part B. F&A Costs

The University must treat certain costs as F&A costs. Such costs include depreciation and interest on buildings, equipment and capital improvements; operation and maintenance of plant; general administration; sponsored programs administration; library; student administration and services; and departmental administration.

The federal regulations require the University to typically treat the following departmental administrative expenses as F&A costs:

- Routine office supplies, postage, and local telephone charges,
- Memberships, and
- Salaries and wages of administrative and clerical staff.

Part C. Treating Costs that are Normally Considered F&A Costs as Direct Costs

The University follows the general guidelines in OMB Circular A-21 Sections D. and E. in determining the treatment of costs as direct or F&A. Costs normally considered as F&A costs can be charged directly in only very unusual/special, unlike circumstances. As noted above, the University requires that care be taken to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs.

Exceptional circumstances for charging as direct costs those items that are normally charged only as F&A costs include:

- Facility alterations. If a program requires the creation of new specialized facilities, including the purchase of security equipment, special construction, or other project-specific facilities costs, such costs may be charged directly.

- Postage and office supplies. If a program requires substantial mailing expenses (e.g., bulk mailing) in the performance of the project, postage and office supplies may be charged directly.

- If a project requires significant amounts of staff support, well beyond the routine requirements of sponsored projects, appropriate costs of staff compensation may be charged. Examples of such major projects include:

  1) Large, complex programs or centers which entail assembling and managing teams of investigators from multiple institutions.
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2) Projects that involve extensive data collection, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting (e.g., clinical trials).

3) Projects that require making travel and meeting arrangements for large numbers of people (e.g., seminars and conferences).

4) A project where the primary focus is the preparation and production of manuals and large reports, books, and monographs (excluding routine progress and technical reports.)

5) Projects that are geographically inaccessible to normal departmental administrative services (e.g., such as research vessels).

6) Projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communication.

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. For instance, the examples would be appropriate when the costs of such activities are incurred in unlike circumstances, i.e., the actual activities charged direct are not the same as the actual activities normally included in the institution's facilities and administrative (F&A) cost pools or, if the same, the indirect activity costs are immaterial in amount. It would be inappropriate to charge the cost of such activities directly to specific sponsored agreements if, in similar circumstances, the costs of performing the same type of activity for other sponsored agreements were included as allocable costs in the institution's F&A cost pools.

Part D. Costs that may Not be Charged to Sponsored Programs

Certain costs are unallowable as direct or as F&A costs. Costs which are unallowable shall be identified and excluded from any billing, claim, application, proposal, or account applicable to a sponsored agreement. All unallowable costs should be identified and recorded in an unrestricted account.

Section J of Circular A-21 presents items that are unallowable charges to Sponsored Programs. In summary, sponsored programs should not be charged for:

- Certain advertising and public relations costs - includes advertising related to the general image of the University or events related to instruction or other institutional activities. (However, advertising costs are allowable when the purpose is to recruit personnel or to procure goods or services for specific sponsored programs, or to otherwise meet the requirements of a sponsored agreement)

- Alcoholic beverages
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- Alumni activities
- Bad debts
- Certain commencement and convocation costs
- The cost of institution-furnished automobiles that relate to personal use by employees
- Contingency provisions
- Certain defense, prosecution, and other costs related to criminal and civil proceedings, claims, appeals and patent infringements
- Donations or contributions made by the institution
- Entertainment costs - including amusement, diversion, and social activities and any costs directly associated with such costs
- Certain fines and penalties
- Costs of goods or services for personal use of the institution’s employees
- Housing and personal living expenses for/of the institution’s officers
- Certain insurance costs
- Certain interest, fund raising, and investment management costs
- Most lobbying costs
- Costs of membership in any civic or community organization, country club or social or dining club or organization
- Costs incurred prior to the effective date of the sponsored agreement, unless approved by sponsoring agency
- Certain recruiting costs
- Selling and marketing costs
- Student activity costs
- Unreasonable travel costs, including airfare costs in excess of the lowest available commercial discount airfare except where justified and documented
- Certain termination costs applicable to sponsored agreements
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For a detailed description of these unallowable costs (or of certain allowable costs), see Circular A-21 section J (http://www.whitehouse.gov/OMB/circulars/a021/a021.html).

Frequently Asked Questions

1. When is it appropriate to directly charge a Sponsored Agreement for clerical support?

   You may charge a Sponsored Agreement for clerical support where a project requires extensive administrative or clerical assistance, such as working with large amounts of data or producing large reports or books. The support required must be **significantly** greater than the routine amount typically required of academic departments throughout the University. Such expenses must also be specifically identified with and benefit the project and be listed in the approved proposal budget. You can not charge sponsored agreements for those types of costs that are routine, such as costs for budget monitoring, recordkeeping, purchasing, personnel actions, etc. You can only charge those types of administrative costs that are specific to the project scope.

2. If I know that the project is administratively intense and will need clerical support, what should I do?

   When writing your proposal, include a budget justification for categories of administrative costs, tailored to the sponsor requirements and the specific project. Explain the function of the position or cost as it directly relates to and benefits the project. Be sure to include project specific details to highlight the activities that make the project administratively intensive. After-the-fact budget justifications are allowable when approved by the sponsor.

3. If we can't charge clerical assistance to this grant account, can we provide, for example, 10 hours a week of a clerical person's time as University cost-share?

   No. You can only provide clerical assistance as cost-share in the exceptional circumstances that would permit charging such assistance as a direct cost to the sponsor.

4. Is it ever appropriate to direct charge postage to a Sponsored Agreement?

   Yes, when the scope of the project demands exceptional expenditures for postage and the cost of postage is included in the grant budget.
5. The PI on this award is going to a meeting in another state. While there, he will report on results of two separately funded research projects. He will also meet with a collaborator to plan a joint application for renewal funding of a third project. To which account(s) are his travel costs properly allocable?

The travel costs should be reasonably determined for the three projects that benefited. One way to calculate such costs would be to determine the percentage of time spent on each task and prorate the costs accordingly. The cost that related to the renewal funding on the third project is, however, a departmental cost, and should not be charged to a sponsored project account.

6. We have a federal grant for an eight-week summer seminar for high school teachers, drawn from around the country. The grant provides stipends to the participants to cover their travel, housing, meals, and other seminar-related expenses. We plan a reception for them on the evening of their arrival date and a banquet on their final day. Can we charge the costs of food, honorariums, and a band or disc jockey for these two events to the grant, or are they considered "entertainment?" And where shall we charge the costs of the beer and wine we'll serve?

If the reception and the banquet have been justified in the proposal as beneficial to the project, and if their costs have been explicitly requested of and approved by the sponsor, then those costs may be charged. The initial reception, for example, might be justified as a particularly appropriate means for seminar participants to first become acquainted with each other and/or to begin to develop important contacts in other units of the University. A band or DJ might be difficult to justify as something other than entertainment, therefore, unless such justification can be found, such costs may not be charged to the grant. The alcohol costs may not be charged to the grant.

7. I bought this piece of equipment from my department's budget but I have money left over in a grant account. Can I charge the grant?

No. You may charge to the grant only those costs that benefited the project funded by the grant.

8. What type of membership costs may I charge to a grant?

Each membership cost needs to be looked at on a case by case basis. Memberships may only be charged to grants in those instances where the membership purpose fits the scope of the grant and is included in the budget. The membership period also needs to coincide with the period of the grant. Costs of membership in any civic or community organization or any country, social or dining club may not be charged to a grant.
9. Is insurance for research equipment an allowable cost?

   Generally speaking, insurance should not be direct charged to a grant. Insurance for the grant period could be charged if it were 100% allocable to the grant, otherwise, directly charging such expense to the grant would not be appropriate.

10. I haven't used all of my budgeted labor funds. May I use them for other grant-related purchases?

   Whether you can use these dollars for other grant-related purposes is dependent on the specific terms and conditions of the grant and sponsor. Contact your Sponsored Programs Office, or other designated personnel for guidance in this area.

APPROVED:

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