



California University of Pennsylvania

OSPR POLICY: Direct Charges on Externally Sponsored Projects

A. Purpose & Scope

This policy provides criteria for determining costs that may be directly charged to sponsored agreements as a result of grants and contracts. As a condition of receiving a portion of its funding in the form of grants, contracts, and other agreements with the federal government, California University follows relevant 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*). OMB Circular A-21 is codified in the Code of Federal Regulations as 2 CFR Part 220.

OMB Circular A-21 includes the Cost Accounting Standards (CAS), which require that:

1. Practices used to estimate costs in proposals must be consistent with practices used in accumulating and reporting those costs; and
2. Costs are to be treated consistently as either direct costs or indirect costs.

Cal U must comply with the following CAS requirements, which are integral to OMB Circular A-21:

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

B. Definitions

1. Administrative costs: 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.
2. Allocable costs: 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.
3. Allowable costs: Costs necessary for the performance of the project that: are directly related to the sponsored agreement, benefit the sponsored agreement in the proportion to the amount charged, and conform to the policies and procedures of the institution. 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 procedure section below it will be deemed unallowable.
4. Consistent treatment: Occurs when a cost incurred for the same purpose in like circumstances is treated consistently as either a direct or an indirect cost.

5. Direct costs: 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.
6. Facilities and Administrative: (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.
7. Federal Flow-Through Funds: 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.
8. Major project or activity: 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.
9. Reasonable costs: 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.
10. Supporting documents: Documents that relate expenditures to the purpose of the award. Examples include financial journals, invoices, payroll records, effort reports, or rebudgeting documents.
11. Technical costs: Costs that can be specifically identified and provide direct benefit to a sponsored project's scientific or technical scope of work.
12. Unallowable costs: Costs explicitly identified in OMB Circular A-21 as unallowable, or those that do not meet the conditions for allowability.
13. University: California University of Pennsylvania.

C. Policy

1. All expenditures on sponsored agreements must meet conditions for allocability, allowability, reasonableness, and consistency as established under federal guidelines.
2. All funds must be spent in accordance with University policy, applicable state and federal law, and sponsoring agency terms and conditions. Principal Investigators/Directors are responsible for the management and administration of their awards including all expenditures of project funds. California University's policy is primarily determined by cost principles contained in OMB Circular A-21.
3. 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 the OMB Circular A-21, administrative costs are normally included as indirect costs, but may be considered as a direct cost to a sponsored project under certain circumstances.

D. Procedure(s)

1. Allowability

In accordance with OMB Circular A-21, costs must meet the tests of allowability:

- a. they must be reasonable;
- b. they must be allocable to sponsored agreements under the principles and methods provided herein;
- c. they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and
- d. they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

2. Determination of Allowable, Allocable, and Reasonable Direct Costs

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 most likely should not be charged to the project:

- a. Is the cost generally accepted as necessary for the performance of the technical scope of the project or similar projects?
- b. Does the cost have an “arms-length” relationship between the investigator/director and merchants or subcontractors? (For example, goods and services should not be purchased from friends or relatives.)
- c. Would you be comfortable explaining to someone outside the University why you charged this item to your project?
- d. Is charging this cost consistent with the University’s policies, procedures, and practices?

3. Determination of the Nature of the Direct Cost: Technical or Administrative

- a. 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, technicians, and laboratory assistants needed to perform the technical scope of the award.
- b. 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.
- c. 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 support.

- d. Clerical and administrative staff costs are normally classified as indirect costs. Direct charging of these costs may be appropriate where a major project explicitly budgets for the services and individuals involved can be specifically identified with the project.
 - e. 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, communication) 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).
 - f. Technical and administrative costs must be given consistent treatment.
4. 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 only when all of the following criteria are met:
- a. The administrative expense is for the performance of tasks that are significantly greater than the routine level of such services normally provided by the administering departments and are in support of major projects, such as those described in the OMB Circular A-21, Exhibit C.
 - b. The administrative expenses can be identified specifically with a particular sponsored project, 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.
 - c. The "budget justification" section of the proposal should state that the costs are normally treated as indirect by the University 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."
 - d. 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.
5. Rebudgeting of Awards for Direct Administrative Costs
- a. Direct charging of administrative costs should be justified in the proposal submitted to and approved by the sponsoring agency.
 - b. If the project investigator/director does not include direct charges of administrative costs in the proposal, the project investigator/director 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.
6. Distribution of Allowable Direct Costs between Two or More Projects
- a. On occasion, an item of costs may benefit more than one project. Allocating costs between projects requires a reasonable and documented methodology.

- b. For all methods, the criterion used for redistribution must be consistently applied to all benefiting projects regardless of the project's available funding. Documentation for any redistribution methodology is maintained in departmental files and must be accessible.

7. Documentation Requirements for Direct Charges to all Sponsored Agreements

Project Investigators/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. Project Investigators/Directors must assure the appropriateness of all expenditures of project funds and assure that adequate supporting documentation relating expenditures to the purpose of the award is accessible. Some examples of supporting documentation are:

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

E. Effective Date: Approved November 27, 2012

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