

Charging of Direct Costs to Sponsored Projects: Policy

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Last Revised: July 2006

Responsible College Officer

Associate Controller for Research

Responsible Office

Research Accounting

Policy Statement

Weill Medical College of Cornell University (WMC) expects its faculty, staff and students, when dealing with federal and other sponsored funds, to follow Generally Accepted Accounting Principles (GAAP); comply with all government and sponsor rules and regulations; and follow established standards for determining when it is appropriate to propose and, if approved, directly charge costs to sponsored projects.

Reason for Policy

As a recipient of federal funds, WMC must comply with the standards set forth in Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions and "Appendix A Part 99005, Cost Accounting Standards for Educational Institutions" concerning the appropriate classification of costs as direct costs. This policy is based on interpretation of federal regulations; however, non-federal sponsors may permit different treatment of costs. Allowability of expenditures on non-federal sponsored projects is determined by the sponsor's terms and conditions.

Who Should Know This Policy

- Dean
- Senior Administration – Vice Provosts, Associate Deans
- Director, Department Chair, Division Head
- Faculty
- Departmental/Divisional Administrators
- Finance Personnel – Research Accounting, Accounting Services
- Grants & Contracts Personnel
- Research Compliance Personnel
- Research Integrity Personnel

- All Employees
- Information Technology Personnel
- Human Resources Personnel
- Students

Contacts

Subject	Contact	Phone	Email
Policy questions	Kevin McGrath	(212) 680-7125	kjmcgra@med.cornell.edu
Accounting questions	Randy Phillips	(212) 680-7131	rhphilli@med.cornell.edu
Institutional research compliance issues	Barbara Pifel	(212) 821-0722	blp2001@med.cornell.edu

Applicable WMC Policies

- Cost Sharing Policy and Procedures
- Time and Effort Reporting Policy
- Travel and Business Expense Reimbursement Policy and Guidelines
- Procurement Card Program Policy and Procedures
- Cost Transfers on Sponsored Projects Policy

Applicable Federal Regulations & Criteria

The spending of any funds awarded by the federal government to WMC is governed by [Federal Circular A-21 - Cost Principles for Educational Institutions](#), published by the Office of Management and Budget (OMB). WMC is also subject to [OMB Circular A-110 – Uniform Administrative Requirements for Grants and Agreements with Higher Education Institutions](#) for certain administrative requirements and documentation standards.

The guiding principles from these federal regulations, especially A-21, are summarized here as background for this policy.

1) General Cost Allowability Criteria

The principles of OMB Circular A-21 govern costs that may be charged to or paid, even in part, by federal funds. A-21 requires that all costs being charged to the federal government pass the following three tests:

- The cost must be **allowable** under both the provisions of A-21 AND under the terms of a specific award. (For those costs specifically designated under A-21 as **unallowable** costs, please reference Appendix C).
- The cost must be **allocable**, that is, the expense can be associated to a project with a high degree of accuracy.
- The cost must be **reasonable**, that is, the cost reflects what a “prudent person” would pay in a like circumstance.

2) Unlike Purpose and Circumstances Criteria

Further, A-21 identifies specific costs that may not be charged directly to research or training sponsored awards, except under special conditions. These costs include many of the types of costs addressed in this policy such as administrative salaries, postage and express mail, local

telephone, copier costs, general office supplies, etc. There are three criteria under which costs may be allowable as direct costs. All three criteria must be met:

- **Unlike circumstances** exist, that is, this particular sponsored award is different from typical sponsored awards at WMC.
- This cost can be **associated with the specific sponsored project** with a high degree of accuracy.
- The **awarding agency has approved** charging the cost as a direct cost in the awarded budget.

Treatment of Specific Types of Costs

The costs of office supplies, local telephone costs (e.g., monthly equipment/line charges), and salaries and fringe benefits of administrative and clerical staff normally cannot be charged directly to sponsored projects consistent with F.6.b. of Circular A-21. However, these costs may be included in the proposal budget if the intended use is for project-specific activities that are clearly justified in terms of their relevance to conducting the research.

Examples of costs that may be charged directly to sponsored projects are costs that are required to complete the specific and distinctive requirements of a particular sponsored project, including:

- Office supplies such as: envelopes used to mail an unusually large number of research questionnaires or folders for filing survey responses and/or lab results.
- Local telephone costs required to: conduct surveys, maintain contact with project activities conducted at remote locations, or establish and maintain a hotline or crisis line that is specifically required by the project.
- Data communication and common infrastructure costs may only be charged directly to a sponsored project if it is approved by the agency *and* the charges are appropriate and solely benefiting the project and no other research or academic activities. The direct charging of these services must be specifically budgeted and justified in the grant application or contract proposal and be approved by the awarding agency. Note that approval from the sponsor does not necessarily indicate the charge is an allocable and allowable direct charge on the sponsored project.
- Postage for: shipment of research materials and deliverables to perform the project's scope of work, correspondence with the sponsor and/or project participants, or dissemination of surveys and/or materials produced as a result of the project activities.
- Administrative and clerical salary that is not routine administrative work that benefits multiple activities of the unit. The following examples are illustrative of circumstances when the nature of the work performed under a particular sponsored project is directly related to the technical substance of the project and may require extensive amounts of clerical or administrative effort. Direct charging of these expenses may be appropriate:
 - Individual(s) collecting data, conducting phone surveys, scheduling visits, preparing manuals and large reports, making travel and meeting arrangements for large numbers of participants, such as conferences and seminars, etc.
 - Individual projects requiring project-specific database management, individualized graphs or manuscript preparation; human or animal protocol, other project-specific regulatory protocols; and multiple project-related investigator coordination and communication.

- Large, complex programs, such as General Clinical Research 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. On a NIH program project grant, the administrative/clerical effort is documented in the proposal as part of the scope of work, and is approved by the sponsor.
- The cost of malpractice insurance can be charged directly to a given sponsored project only if it meets the following conditions: it is required by the grant terms and conditions and is for direct patient care that is reported through the IDX billing system and is a component of the scope of work. In all cases, the Associate Controller for Research must be contacted to review and approve this cost to ensure consistency in the allocation methodology.

If there are any questions on allowability or charging of direct costs regarding these examples or other specific items, contact Research Accounting for assistance.

Roles & Responsibilities

Responsibilities	PI	Dept Admin	Dept/Div Chair	Finance	G&C Office
Initiate non-salary purchases electronically	P	S			
Prepare single source justification for purchases (if necessary)	P	S			
Verify that expenditures meet A-21 requirements at the time they are requested	P				
Determine and set up payroll on grants with Personnel Action Form	S	P		S	
Maintain local oversight for the project budget	P	S			
Initiate request for rebudgeting and prepare documentation	P	S			
Review rebudgeting requests and either approve them or return them for issue resolution		I	O-L	P	P
Oversee (with respect to assurance) that budget items are in accordance with A-21 and the cost accounting standards				I	P
Monitor grant transactions for appropriateness and adherence to federal, state and local regulations				P	

KEY
P = PRIMARY RESPONSIBILITY
S = SECONDARY RESPONSIBILITY
O = INSTITUTIONAL OVERSIGHT
O - L = LOCAL OVERSIGHT
I = PROVIDE INPUT

Forms/Instructions

Purchasing Requisition
Check Requisitions
Transfer of Funds or Expenses Form
Personnel Action Form

Appendices

In support of this policy, the following appendices are included:

Appendix A - Acceptable and Unacceptable Direct Costs

Costs Typically Included as Direct Costs	Costs Typically NOT Included as Direct Costs
<ul style="list-style-type: none">• Salaries and fringe benefits of programmatic personnel who are necessary to meet the goals of the project• Scientific and technical equipment (including software, supplies, maintenance agreements and services)• Long-Distance Telephone charges• Lab Supplies• Services<ul style="list-style-type: none">- Animal care- Consultant• Subcontracts• Travel	<ul style="list-style-type: none">• Salaries and fringe benefits of clerical and administrative personnel• Memberships• Subscriptions, library books, periodicals, etc.• Office Supplies• General and office equipment• Postage (for general business use)• Repair & Maintenance (buildings, grounds, building equipment, remodeling, etc.)• Telephone (recurring, installation and maintenance), cell phones, pagers• Common infrastructure costs, including data communication connections• Utilities• Equipment Insurance• Malpractice Insurance

Appendix B – Examples of Potential Direct Charging

Direct Cost?	Yes/No
Salary Expenses:	
• Processing purchase orders on a research grant (such as an R01)	No
• Processing purchase orders on a center/program project grant (admin effort documented in proposal as part of scope of work)	Yes
• Proposal development (writing, editing, copying and mailing proposals)	No
• Principal investigator effort to write annual project report (may include next budget year's proposal)	Yes
• Data entry (data collected under project scope of work)	Yes
• Data entry (financial transactions for a research grant are entered into financial shadow system)	No
Supplies and/or Services:	
• Copying costs for copying purchase orders, monthly ledgers	No
• Copying costs for annual progress reports	Yes
• Mailing costs for shipment of research materials and deliverables if necessary to perform the project's scope of work	Yes
• Copying costs for copying forms to mail out to survey recipients (survey is part of project scope of work)	Yes
• Personal computers	No
• Computer set-up costs, common infrastructure costs, access fees, network usage, wireless services	No
• Office supplies for general office use	No
• Cost of malpractice insurance only if it is required by the grant terms and conditions and direct patient care that is reported through the IDX billing system is a component of the scope of work	Yes

Appendix C - Examples of Unallowable Costs

Costs Specifically Designated as Unallowable Costs by A-21

- Advertising expenses except for employee and subject recruitment
- Alcoholic beverages
- Contingency provision costs
- Certain defense and prosecution of criminal and civil proceedings
- Entertainment costs including social activities and related costs including tickets to events, meals, lodging, rental, transport and gratuities
- Goods and services for personal use
- Insurance against defective workmanship or materials
- Interest, fund raising, and investment costs (excluding third party interest expenses)
- Malpractice insurance that does not involve human subjects
- Membership in any civic or community organization, country club, social or dining club
- Public relations costs
- Selling and marketing costs of products and services
- Student activity costs including intramural activities, student publications, student clubs or other related costs
- Travel/subsistence costs of trustees
- Costs in support of alumni activities
- Bad debts from uncollectible accounts and related legal costs
- Commencement and convocation costs
- Fines and penalties for failure to comply with government laws and regulations
- Housing costs for officers of the institution including depreciation, maintenance, furnishings, utilities, rent, etc.
- Lobbying costs including related costs of legislative liaison activities, attendance at legislative sessions, and information gathering and analysis regarding effect of legislation

Appendix D - Definitions

Term	Definition
Allowable Costs	Costs that are (a) reasonable; (b) allocable to sponsored projects under the principles and methods outlined in OMB Circular A-21; (c) given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) conform to any limitations or exclusions set forth in OMB Circular A-21 or in the sponsored agreement as to types or amounts of cost items. (OMB Circular A-21, Section C2).
Cost Allocation	The process of assigning a cost, or group of costs, to a sponsored project or to a particular service or project in reasonable and realistic proportion to the benefit provided. (OMB Circular A-21, Section B3).
Direct Costs	Costs that can be identified specifically with a particular sponsored project, primarily research, instruction, or service, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. (OMB Circular A-21, Section D1).
Facilities and Administrative (F&A) Costs	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 (OMB Circular A-21, Section E1).
Federal Unallowable Costs	Costs identified as unreimbursable by the federal government in Section J, OMB Circular A-21 or by the specific sponsored project terms and conditions. This term supersedes the term "nonrecoverable cost."
Indirect Costs	See <i>Facilities and Administrative (F&A) Costs</i> .
Reasonable Cost	A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. (OMB Circular A-21, Section C3).
Sponsored Project	An externally funded activity that is separately budgeted and accounted for and governed by specific terms and conditions. Sponsored projects must be separately budgeted and accounted for subject to terms of the sponsoring organization. Sponsored projects may be in the forms of grants, contracts, or cooperative agreements for research, instruction, and public service activities.