

University of New Hampshire

OMB Circular A-21 Financial Management Compliance Policies and Procedures for Federally-Funded Grants and Contracts

Issued on October 21, 1994 by the UNH Office of Sponsored Research

INTRODUCTION

On July 26, 1993, the Federal Office of Management and Budget (OMB) released revisions to OMB Circular A-21, "Cost Principles for Educational Institutions." These cost principles define what costs are allowable on federally funded grants and contracts. The 1993 revisions reduce the ambiguity of what costs can be charged and whether certain specific types of costs should normally be classified as direct or indirect costs. Some types of costs previously treated as direct costs are now generally allowable only as indirect costs and, therefore, recoverable only through application of the indirect cost rate.

For the University of New Hampshire, the 1993 A-21 revisions will become fully effective on July 1, 1995. As of July 1, 1994, the UNH Office of Sponsored Research began working with project directors to incorporate the revised A-21 principles in proposal budgets. Some federal sponsors have already adopted the new provisions in their award documents. Reasonable efforts should be made to implement these changes on existing grants and contracts during this transition period.

While using its best efforts to address all circumstances at all institutions, the federal government left many of the revisions to Circular A-21 subject to interpretation. This has resulted in continuing discussion regarding the specific actions required by the Circular. The following UNH policies and procedures incorporate a broad view of the most recent revisions and take into consideration the uniqueness of UNH while still complying with the requirements of the revised principles. As we gain additional experience in implementing this latest version of A-21 and as further adjustments and interpretations are made to A-21 by the federal government, it may become necessary to modify our own policies and procedures.

The University of New Hampshire has a sponsored programs accounting system which places considerable authority and responsibility directly with the departments. Such a system requires the development of significant expertise at the department level and relies heavily upon the voluntary compliance of project directors and business managers. The staff of the Office of Sponsored Research welcomes all questions you may have regarding the implementation of the A-21 revisions as these may affect your specific federally-funded programs and projects.

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I. BASIC PRINCIPLES AND DEFINITIONS

A. General Philosophy of OMB Circular A-21

From OMB Circular A-21, Section C.: "The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable..."

OMB Circular A-21 represents the federal government's attempt to define the total costs of grant or contract activities (direct and indirect) that can be billed to the federal government. A cost is allowable on a particular sponsored agreement if reasonable, based on the needs of the specific activity. The basis for determining reasonableness is that a cost would withstand public scrutiny -- i.e., objective individuals not affiliated with the institution would agree that a cost is appropriate on a sponsored project or as a component in its indirect cost proposal. A cost is allocable to a sponsored agreement if it is incurred solely to advance the work under the sponsored agreement.

Verification of costs must be done by someone in the position to know the appropriateness of the charge (e.g., the project director). Appropriate documentation must be maintained.

B. Definition of Direct Costs

From OMB Circular A-21, Section D.1.: "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 indirect 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 for all activities of the institution."

A direct cost is one where a specific grant or contract gains explicit benefit from that cost for a specific programmatic purpose. At the University of New Hampshire, a Research Scientist's salary, when represented by significant scientific effort on a particular grant or contract, is an example of an allowable direct cost to that grant or contract.

C. Definition of Indirect Costs

From OMB Circular A-21, Section E.1.: "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. At educational institutions such costs normally are classified under the following indirect cost categories: depreciation and use allowances, general administration and general expenses, sponsored projects administration expenses, operation and maintenance expenses, library expenses, departmental administration expenses, and student administration and services."

Indirect costs are infrastructure costs of the University needed to support the programs of the institution, including research and other sponsored programs. Building depreciation, maintenance costs, the cost of electricity and heat, accounting services, personnel services, departmental administration, purchasing, and human subjects administration are examples of indirect costs.

D. Consistent Treatment of Costs

Consistent treatment of costs is specifically required by OMB Circular A-21 to assure that the same types of costs are not charged to grants and contracts both as direct and as indirect costs. Consistency means that costs incurred for the same purpose in like circumstances must be treated uniformly either as direct costs or as indirect costs. Thus, if certain costs, such as office supplies and postage, are treated as indirect costs, the same types of costs cannot be directly charged to programs, unless the circumstances related to a particular program or activity are clearly different from the normal operations of the institution. The consistency requirement applies to the institution as a whole. Costs must be classified consistently across all the departments and other organizational units of the university. For example, if technicians' salaries are charged directly to grants and contracts, the institution would need to treat the salaries of staff performing comparable work on non-sponsored programs as direct costs of those programs and exclude these costs from its indirect cost pool.

E. Allocations of Direct Costs Between Two Or More Grants Or Contracts

From OMB Circular A-21, C.4.d.(3): "If a cost benefits two or more grants or contracts in proportions that can be determined without undue effort, the cost should be allocated to the grants based on the proportional benefit. If a cost benefits two or more grants in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefited projects on any reasonable basis..."

A-21 provides two kinds of flexibility for allocating an allowable direct cost across two or more grants:

1. The proportional benefit rule can apply across two or more grants whether or not they are technically and scientifically related, but the distribution of costs across grants must correspond roughly to the distribution of the corresponding benefit.
2. The interrelatedness rule can apply only across two or more grants that are scientifically and technically related, that meet other stipulations, but the distribution of the cost does not have to reflect the distribution of the corresponding benefit (because the proportional benefit cannot be measured.)

F. Cost-Sharing

Costs determined unallowable under A-21 as direct costs on a particular federally-funded grant or contract cannot be cost-shared on that award. Costs that are not allowable based on specific sponsor regulations may be allowable as cost sharing if these costs are not disallowed under A-21.

II. ADMINISTRATIVE AND CLERICAL STAFF SALARIES

A. Statement of OMB Circular A-21 Principle

From OMB Circular A-21, Section F.6.b.: "The salaries of administrative and clerical staff should normally be treated as indirect costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity."

B. OMB Clarification, Issued July 13, 1994

"Question

Section F.6.b. of the July 1993 revision of Circular A-21 says that the salaries of administrative and clerical staff should normally be treated as indirect costs. This section goes on to say that direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and the individuals involved can be specifically identified with the project or activity. What is the intent of this provision and under what circumstances may these costs be directly charged to sponsored agreements?"

"Answer

This provision is intended to establish the principle that the salaries of administrative and clerical staff should usually be treated as indirect costs, but that direct charging of these costs may be appropriate where the nature of the work performed under a particular project requires an extensive amount of administrative or clerical support which is significantly greater than the routine level of such services provided by academic departments. The costs would need to meet the general criteria for direct charging in Section D.1. -- i.e., *be identified specifically with a particular sponsored project... relatively easily with a high degree of accuracy*, and the special circumstances requiring direct charging of the services would need to be justified to the satisfaction of the awarding agency in the grant application or contract proposal."

"The following examples are illustrative of circumstances where direct charging the salaries of administrative or clerical staff may be appropriate.

- o 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.
- o Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting, such as epidemiological studies, clinical trials, and retrospective clinical records studies.
- o Projects that require making travel and meeting arrangements for a large number of participants, such as conferences and seminars.

- o Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- o 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.
- o Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocol, IRB preparations and/or other project-specific regulatory 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 would always be appropriate for the situations illustrated in the examples. Where direct charges for administrative and clerical salaries are made, care must be exercised to assume that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities. This should be accomplished through a *Direct Charge Equivalent* or other mechanism that assigns the costs directly to the appropriate activities."

C. UNH Interpretation and Implementation Procedures

1. Major Activity

The dollar value of a grant or contract is just one factor in designating a specific program or project as "major." The scope of the project, type of effort, and degree of effort involved must be considered. Administrative costs may be allowable on a "major project" provided they

- a. are specifically associated with the work of the grant or contract, either as part of an unusually large or complex activity that requires separate administrative support, or an administrative effort that is required to complete the specific and distinctive requirements of a particular grant or contract or group of grants or contracts;
- b. represent extensive work, significantly more than the routine level;
- c. are a realistic reflection, through appropriate documentation, of planned or actual effort; and
- d. are specifically identified in the grant or contract budget, fully justified, and approved by the sponsor.

For example, if a person spends 50% time working with UNH's financial accounting system, this represents a significant level of effort, but does not make a direct contribution to the programmatic success of the sponsored project. Therefore, the function being performed is an indirect function and considered to be an indirect cost.

2. Specific Identification

Individuals whose salaries and related fringe benefits are paid from a grant or contract must have responsibilities identified specifically with the work of the project (e.g., administrative work specifically related to the distinctive scientific and technical requirements of the grant or contract.) Supporting certification and time and effort reports will be required.

The salaries and related fringe benefits of individuals whose responsibilities do not meet these standards cannot be charged directly to a grant or contract without the approval of the UNH dean/director of the college/school/institute/center and the appropriate Office of Sponsored Research grant and contract administrator. OMB has provided examples of the kinds of circumstances where these costs can be direct charged. Responsibilities that duplicate normal departmental administrative functions such as proposal preparation, accounting, payroll, purchasing, etc. cannot be charged directly to a grant. The cost of administrative work such as library searches, filing, and the typing of manuscripts would not be considered allowable direct charges because such work is common across many grants. Such costs may support grant or contract activity, but they are classified by A-21 as indirect costs because they do not meet A-21's "specific identification" standard.

3. Justification

To comply with A-21, the percent of effort, salaries, and fringe benefits of administrative and clerical positions must be specifically included in the proposal budget and be clearly explained. Sufficient justification will be required to obtain sponsor approval at the time of award.

III. OTHER COSTS

A. Costs Normally Treated as Direct Costs

From OMB Circular A-21, D.1.: "Direct costs are those costs that can be identified specifically with a particular sponsored project...or that can be assigned to [such activity] relatively easily with a high degree of accuracy."

This policy limits direct charges to a federally-funded grant or contract that directly support the purpose and activity of the grant or contract. "Unusual" charges must be supported by written justification to reflect direct relation to the purpose of the grant or contract. If a cost cannot be so identified, it cannot be direct charged. The following are examples of acceptable direct costs that meet A-21 guidelines if identifiable to a particular sponsored project:

Laboratory supplies (e.g., chemicals), telephone toll charges, animals, animal care costs, shipping costs (not ordinary postage), computer costs, travel costs, technical and scientific equipment (and related maintenance agreements), and specialized shop costs.

These charges must be clearly identified with the work of a particular award or group of awards. For example, long-distance telephone costs and travel costs cannot be charged directly unless they clearly benefit a specific award or group of awards to which the charges are to be made.

Appropriate documentation will be required to insure that the cost is identified with activity in the grant or contract. Documentation linking a cost to an activity should be done by someone in a position to know this linkage (e.g., the person making the telephone call, the person taking lab supplies from a common stock, etc.). A manual log, specific access codes, or assignment of charges by the project director on the monthly telephone bill are all acceptable methods for documenting telephone toll charges, for example.

B. Costs Normally Treated as Indirect Costs

From OMB Circular A-21, F. 6.b.: ""Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as indirect costs.""

1. Office Supplies

Office supplies (paper, pencils, pens, accent markers, notebooks, binders, file folders, etc.) normally cannot be considered an allowable direct cost on a grant or contract. However, exceptions may be dictated by the nature and/or demand of the research project that could make such charges allowable when appropriate justification has been provided.

Proposal budgets must include a detailed explanation of, and justification for, any purchase of administrative or office supplies. Requests for the addition of new spending lines on an existing award for the purchase of previously unbudgeted administrative or office supplies will be considered by OSR upon appropriate justification, including cost estimate.

2. Postage

Postage is ordinarily an indirect cost of sponsored activities. However, if a particular program has a special need for an extraordinary amount of postage because of the mailing of hundreds of survey questionnaires, for example, then it would be appropriate to charge that program directly for the postage related to the questionnaires.

3. Local Telephone Costs and Monthly Rental

Local telephone and monthly rental charges are not allowable direct costs unless specifically requested and justified in the proposal and approved by the sponsor. An example of allowable monthly rental costs would be those for projects funded for telephone surveys as a major component of the research or sponsored activity.

4. Memberships

Memberships are not normally allowable direct costs unless the sponsor requires the membership for the performance of the project and the cost is specifically approved in the award budget by the sponsor.

5. Photocopies

Photocopying costs cannot be charged directly to a grant or contract except those costs directly related to a programmatic activity (e.g., the printing of surveys and questionnaires). A manual log or copy auditor are possible means for documenting these charges.

6. Common Stock

Office supplies drawn from common stock will be considered unallowable as a direct cost unless sufficient written documentation is kept regarding their direct applicability to the sponsored project.

IV. BUDGET PREPARATION AND AWARD ADMINISTRATION RESPONSIBILITIES

A. Project Director

Prepares proposal in accordance with solicitation guidelines, estimates costs, writes budget narrative and justification for costs, administers award in accordance with A-21 cost principles.

B. Office of Sponsored Research (OSR)

Provides proposal budget development support, advises project directors and business managers regarding allowability of costs, ensures adherence to sponsor and institutional policies and guidelines.

C. Department Chair

Approves departmental commitments to the project (e.g., cost-sharing, space, effort).

D. College/Center Business Manager

Monitors costs applied to grants and contracts to ensure department and college/school consistency and works with OSR to comply with A-21 cost principles.

E. Dean/Director

Approves all financial commitments to the project on behalf of the college/school or center/institute (e.g., cost-sharing, space, effort).

F. OSR Executive Director and VP for Research and Public Service

Ensure institutional consistency with A-21 guidelines.

V. POST-AWARD ACTIVITY

A. Budget Changes For Administrative Costs

When a request is made by a project director or business manager for the addition of a budget line to allow for payment of administrative or clerical costs, such as office supplies or secretarial salary, an estimate of total expenses to be charged against that budget line must be provided. If the proposed budget change is approved by OSR (and the sponsor when required), it is expected that charges will be limited to the approved amount. In no case should actual expenses exceed 125% of the approved amount.

For example, if approval is granted for the purchase of \$200 in office supplies, the budget line may be overspent by \$50 without further OSR approval. However, a second budget justification must be approved before incurring any additional expenses to that budget line. It is essential that project directors and business managers observe this local procedure for the University to remain in compliance with OMB Circular A-21.

B. Blanket Purchase Orders

Whenever possible, costs to be charged directly should be posted to separate purchase orders. When costs are charged to a blanket purchase order, care must be taken to ensure that only costs that are allowable on a particular grant or contract are charged to that account.

C. Cost Transfers

From OMB Circular A-21, C.4.b.: "Any costs allocable to a particular sponsored agreement under the standards provided in this Circular may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience."

It is expected that costs will be posted to the correct account at the time of purchase. However, in the event the transfer of a charge is required, the transfer should be implemented as soon as the need for correction is identified. Justification must be provided to OSR for the transfer.

Award accounts are inactivated by OSR at 30 days past the sponsor-approved end date for the particular award. After that time, only charges against open purchase orders can be posted without intervention by OSR staff. Normally, the final financial report must be filed with the Federal sponsor within 90 days of the grant period end date. Therefore, approved cost transfers should be made no later than 60 days past the grant period end date.

VI. RECORD RETENTION

Documentation for financial records must be maintained for a minimum of three years following the official closing and sponsor acceptance of the final reports (OMB Circular A-110). Documentation in the University's financial system is acceptable when complete.