

FSM Research Administrators' Workshop Series



Cost Principles for Sponsored Projects

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Today's Agenda

- Cost Principles
- Examples, OSR/ASRSP case studies and audience questions submitted in advance
- Citations from DHHS Office of Inspector General's Audits
- Review of OIG audits at Duke and Yale

OMB Circular A-21: Cost Principles for Educational Institutions

- OMB is part of the Executive Branch
- Circular A-21 is a set of instructions to Federal agencies regarding principles for determining costs applicable to research and other sponsored work
 - Direct versus Indirect costs
 - Allowable versus Unallowable
- Uniform standards of cost allowability, allocation, consistent treatment
- Applies to grants, contracts, and other agreements with the Federal Government
- Prescribes government-wide policies on cost reimbursement

OMB Circular A-21: Cost Principles for Educational Institutions

Why are the circulars important to me as a department research administrator or business manager?

- The responsibility to manage any given federal grant is therefore delegated to the Institution and guidance contained in the applicable circulars
- Department research administrators and business managers are the ones tasked with the responsibility of directly applying the charges to grant accounts
- ASRSP and OSR are also deeply involved in the aforementioned process to provide oversight, guidance, and for certain thresholds, approval

Direct vs. F&A Costs

What are Direct Costs?

- Identified specifically with a particular sponsored agreement and incurred to advance the work under that sponsored agreement
- Assigned to a sponsored agreement with relative ease and a high degree of accuracy

What are Facilities & Administrative Costs?

- Aka indirect costs, overhead
- Costs that are incurred for common or joint objectives that cannot be readily proportioned to a specific project with relative ease or high degree of accuracy

Examples of Direct Costs

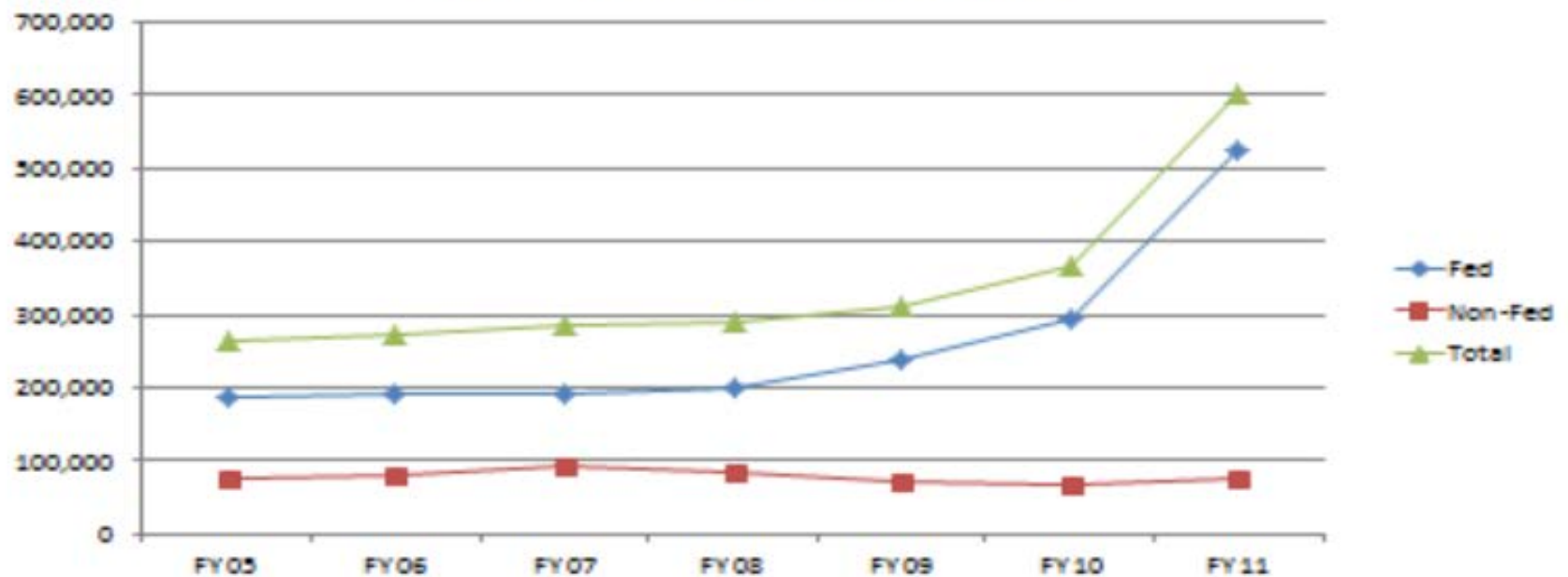
- Salaries and fringe benefits of project personnel
- Travel necessary to perform the work or report results – directly benefits the grant
- Consultants
- Lab supplies (e.g., chemicals)
- Scientific equipment
- Graduate student tuition
- Subcontracts

“...shall be treated as direct costs wherever identifiable to a particular cost objective”

Direct Cost Trends

NU Direct Cost Trends

Direct Expenditures on Sponsored Projects



	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Total	263,018	273,834	284,086	288,190	312,497	363,925	600,814
Fed	187,728	191,913	190,874	201,852	238,898	296,151	526,154
non-fed	75,290	81,921	93,212	86,338	73,599	67,774	74,660

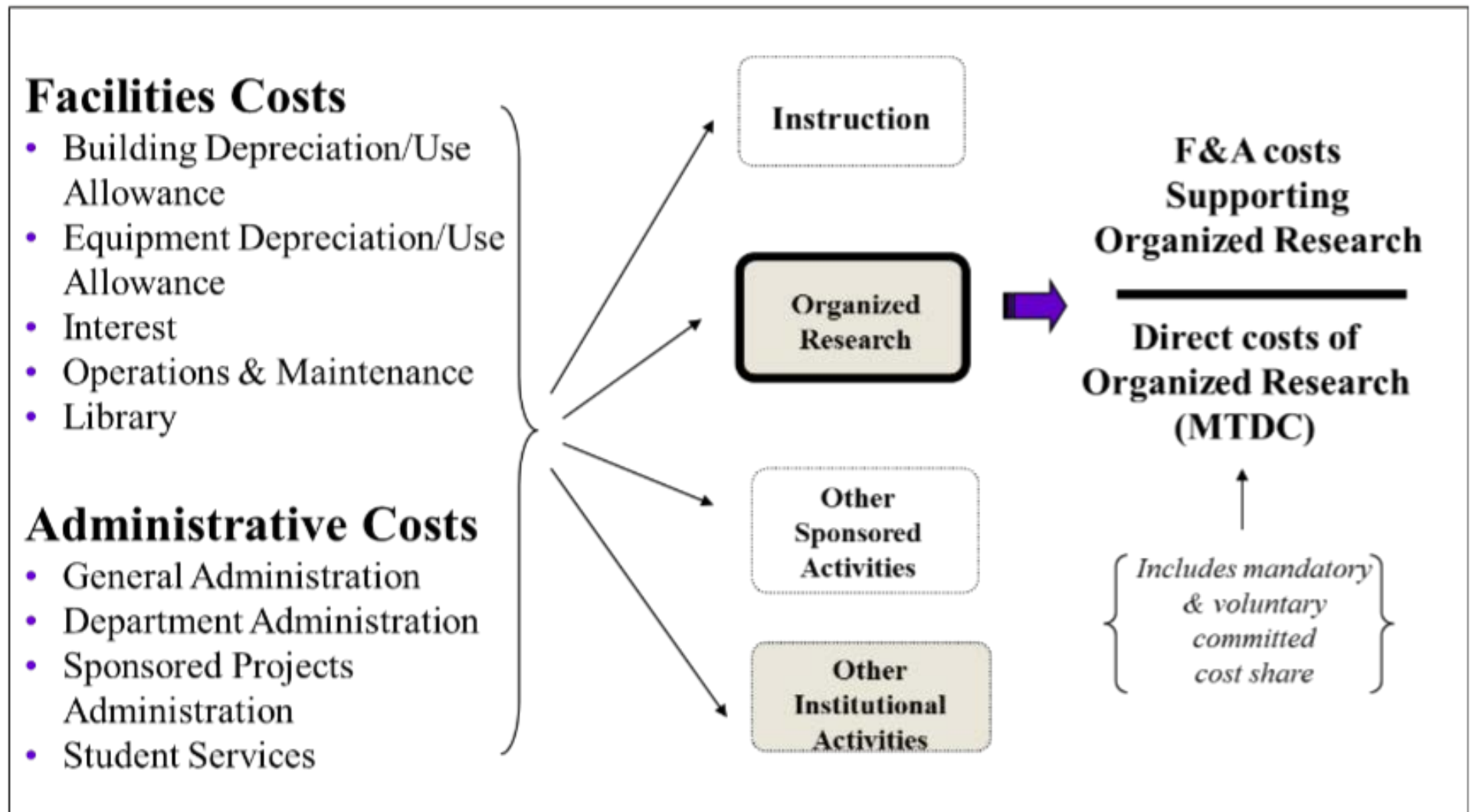
*Data is in thousands.

Examples of F&A Costs

- Salaries and fringe benefits of personnel engaged in providing a broad range of departmental support activities
- Office supplies, postage, local telephone service and memberships
- Cost of utilities
- Services of accounting staff, research administrators and clerical staff

F&A Costs

The F&A Rate Calculation



Cost Principles

- ✓ Allowable
- ✓ Reasonable
- ✓ Allocable
- ✓ Consistently Treated

What makes a cost allowable?

- Conforms to sponsor policies and guidelines, the cost principles contained in A-21 and institutional policy
 - A-21 defines certain types of expenses, e.g., alcohol, lobbying, or entertainment, as categorically unallowable. Other costs may be unallowable per the specific terms of an award, e.g., unapproved foreign travel, capital equipment purchases, or patient care costs. These types of expenses are therefore, by definition, unallowable.

Other factors affecting allowability of costs:

- Reasonable
- Allocable to the proposed project
- Treated consistently in like circumstances

What makes a cost allowable?

- Why is it important to ensure that a cost is allowable before including it in a proposal budget or charging it to a sponsored award?
 - Because NU is spending the public's money
 - Proper stewardship of public funds
 - Responsibility for upholding public trust
 - Required by A-21
 - Prevents double-dipping
- Internal and external audits monitor our compliance

Test of Reasonableness

- Prudent person test: A cost is reasonable if the nature of the goods or services acquired and the amount involved reflect the action that a *prudent person would have taken under the prevailing circumstances when the decision to incur the cost was made*
- **Necessary**: Is it necessary for the completion of the project?
- **Arm's-length transaction**: Is it treated as a transaction with an unrelated third party?
- **Consistent with institutional policies and practices**: Is it treated consistently across campus when under similar circumstances?

An auditor may legitimately question a cost that is clearly allocable and not otherwise unallowable if, in the auditor's judgment, the cost exceeds what a prudent person would have paid in similar circumstances.

Allocability



What makes a budgeted cost allocable to a project?

- Every incurred cost must have a direct benefit to the sponsored project being charged
- A cost is allocable if the goods or services involved are assignable to the project in accordance with **relative benefits received in proportions that can be approximated through use of reasonable methods**

Allocation Methodology

Examples:

- Allocation based upon usage: The cost of lab supplies allocated based upon the quantity used on each project.
- Allocation based upon number of experiments: The cost of syringes allocated based upon the number of experiments performed on each project.
- Allocation based upon number of hours: The cost of equipment allocated based upon the number of hours logged on for each project.
- Allocation based upon effort: The cost of lab supplies proportionately allocated based upon FTE charged to each project.

Allocability

Is Allocability is the same as allowability?

No! An otherwise allowable cost, e.g., salary or travel, may not be allocable to a particular project if the project did not benefit from the cost.

Consistent Treatment



Consistency means that like costs must be treated the same in like circumstances as either direct or F&A costs.

By charging an F&A cost, such as office supplies, as a direct cost without approval of unlike circumstances, the project would be paying the DIRECT costs of the office supplies plus paying INDIRECT costs on those direct costs. This results in double charging and this inconsistency violates Cost Accounting Standards.

Unlike Circumstances

- In certain circumstances, costs that are normally charged as indirect costs to sponsored agreements may be charged as direct costs to those agreements.
- The consideration of whether a particular type of cost may sometimes be charged direct and sometimes indirect involves assessment of various factors to determine whether “unlike” circumstances may exist to justify differing treatment of a cost.
- An unlike circumstance is defined as an activity/use of the cost item that is substantively greater in amount or different in purpose than is typical.
- When costs are incurred under unlike circumstances, similar types of costs may be treated as direct under one circumstance and indirect under the differing circumstances. This does not violate the consistency requirements as long as all similar costs are treated in the same manner in like circumstances.

Unlike Circumstances

- Examples: Large complex projects (defined in A-21 as requiring an extensive amount of administrative or clerical support that is significantly greater than the routine level of such services provided by academic departments, projects with extensive data accumulation, clinical trials
- Required documentation
 - Proposed in budget, e.g., needs to be above and beyond time spent for account maintenance/monitoring
 - Unlike circumstances explained in budget justification
 - Approved by sponsor

If unlike circumstances are requested after an award has been made,
-the cost must be allowable, allocable, and reasonable,
-documentation must be approved by OSR,
-and the sponsor must allow rebudgeting.

Documentation needs to be maintained by departments to explain, and serve as support during possible federal audits

Unlike Circumstances

When is it appropriate to charge administrative or clerical salaries to a project?

- If a project only requires a routine level of clerical or administrative support, such support is to be covered by the faculty member's department, since these costs are recovered via the University's collection of F&A.
- The only time clerical and administrative support can be charged directly to a sponsored project is when the level of support needed for a project is significantly greater than the routine level of services provided by the faculty member's department.
 - Major projects (such as multi-institutional research centers, or program projects) may require additional administrative support.
 - Conference grants may require additional administrative support.In all such cases, it is imperative that a specific budget justification be provided for why clerical and/or administrative salaries are being charged directly to the project.

F&A Costs and Non-Federal Awards



F&A costs may be charged to sponsored projects not supported, in whole or in part, by federal funds as long as the sponsor's policy does not prohibit treating an F&A cost as a direct cost.

Examples of Unallowable Costs

Alcoholic beverages

- Costs of alcoholic beverages are unallowable.

Alumni activities

- Costs incurred for, or in support of, alumni activities and similar services are unallowable.

Professional development

- Costs incurred for faculty development—the rationale being that the faculty should already have the requisite skillset and training to perform their role on the project.

General Advice

- When creating a proposal budget or considering charging a cost to a sponsored award
 - Determine the allowability criteria of each proposed cost
 - Does each cost specifically benefit the project?
 - Assign the costs to the proper cost category
 - Always act prudently and in accordance with the cost principles and NU policies
 - When in doubt, call OSR/ASRSP!

Examples/Case Studies/Questions

OSR/ASRSP

Examples, OSR/ASRSP Case
Studies, and Audience Questions
Submitted in Advance

Graduate Student Attends a Conference



You have a research grant from the NIH to study changing cell signaling proteins. A graduate student in the lab would like to present her results in a meeting in Las Vegas.

In order to determine whether the trip could be charged to the grant, which cost principle must be considered? How would you make this determination?

Graduate Student Attends a Conference



Allowability.

Review funding opportunity announcement and Notice of Award terms and conditions to see if there are prohibitions against travel.

Review budget to see if this trip was included and if participants are named and requisite salary charged.

Graduate Student Attends a Conference



The student will present her paper and interact with colleagues from other academic institutions.

Can we allocate the costs of the trip to the grant?

Graduate Student Attends a Conference



Yes, the ALLOCABILITY cost principle stipulates that any expense paid by a project must benefit that project. Presenting a paper benefits the project.

What if the student was not presenting a paper but simply attending?

The answer here would be No as the benefit is to the individual and their career development/professional development.

Graduate Student Attends a Conference



Your student was feeling rather good after her presentation and decided to celebrate in a BIG way. She brings back receipts showing that the cost of her final dinner in Las Vegas, exclusive of the wine, was \$147.36 per person.

Can we charge this amount to the grant?

Graduate Student Attends a Conference



No. Even though the trip was allowable and allocable, that cost is not REASONABLE. The cost principle of REASONABLENESS stipulates that costs will be reimbursed only if a prudent person would have paid this amount. If not, the expense may not be charged to the Government.

This amount also exceeds the “per-diem” reimbursement.

The student may therefore not be fully reimbursed for this expense, although she can be reimbursed for a lesser, reasonable amount.

Graduate Student Attends a Conference



Consistency Principle

Because the student's participation in this conference directly benefitted an NIH project, reasonable travel costs should be charged DIRECTLY to that project. Other expenses incurred in similar circumstances in other parts of the University should also be charged directly to the appropriate projects.

The Paper Towel Discussion



Break



What makes a cost allowable?

- An allowable cost must be be:
 - **ALLOWABLE** by A21 and specific terms of an award.
 - **REASONABLE**: A prudent person would have purchased this item at this price.
 - **ALLOCABLE**: It can be assigned to the activity on some reasonable basis.
 - **CONSISTENTLY TREATED**: Like costs must be treated the same in like circumstances, as either direct or F&A costs.

Can the PI Increase their Effort?

A PI has an R01 project and wishes to increase their effort from 10% (1.2 CM) to 40% (4.8 CM). They also wish to reduce the effort of a co-investigator from 20% (1.2 CM) to 5% (0.6 CM).

It is now October 4th and they wish the change to be effective starting 9/1—where do you start?

Can the PI Increase their Effort?

- Start with the terms and conditions governing the award—a collection of federal agencies established what are known as the Research Terms and Conditions (RTC)
- Most basic research awards issued by NIH are award under RTC
- These terms evolved out of a movement know as the Federal Demonstration Project (FDP), whose aim is to reduce administrative burden and allow flexibility for the PI

Can the PI Increase their Effort?

- The award terms cite that prior approval for a **significant reduction** in effort is required for the PI and any other individual specifically named on the award notice
- A **significant reduction** is defined as a 25% reduction from the proposed level of effort, e.g., a reduction from 40% (4.8 CM) to 30% (3.6 CM) would be a 25% reduction and require prior approval

Can the PI Increase their Effort?

Things to consider when evaluating the request...

- Why the change and sudden increase of time for the PI—is there a change in the scope of work?
- What about the Co-I, their reduction was significant, do we need prior approval for their change?
- Was the Co-I specifically named on the award notice?
- What if the Co-I was the sub PI?

Photocopying

Can I direct charge the costs to prepare a survey that will be mailed out to 100 research subjects?

Photocopying

- Photocopying in general is not an allowable direct costs
- If appropriate for non-administrative use, be sure to include in the proposed budget
- Should be treated as a “technical cost,” e.g., for surveys or presentations, and the direct benefit can be clearly demonstrated

Photocopying

Can I charge my NIH grant the cost of photocopying journal articles to keep me current in my field?

Keep in mind:

- ALLOWABLE
- REASONABLE
- ALLOCABLE
- CONSISTENTLY TREATED

Photocopying

No

The benefit of reading journal articles cannot be allocated as a direct cost with a reasonable degree of accuracy. These photocopying costs would be considered F&A.

Computers

My laboratory needs three laptops for internet access and e-mail. I have 3 federal awards that will benefit from the computers and I intend to allocate a share of the purchase to each award. I need these machines to perform basic, everyday communication. My research would cease if I didn't have them. Is charging these computer purchases to my sponsored research going to be a problem?

Department administrator's want more specific information on why OSR sometimes approves these and doesn't (initially) approve them in other cases.

Computers

The federal government is particularly sensitive to laptop and computer purchases on federal awards, particularly those <\$5,000 because they would be considered general office equipment. This is an area auditors routinely review.

Unlike circumstances must be documented: Care must be exercised to assure that computer purchases are properly justified and documented when charged to federal awards.

Poor documentation of unlike circumstances will cause delay in OSR and potential removal of the charge from the grant account.

OSR Policy Purchase of Personal Computers and Electronic Devices on Sponsored Projects:

<http://www.research.northwestern.edu/osr/computers.html>

Computers

Computers (inventorial and non-inventorial) used to accomplish the technical scope may be charged directly to sponsored awards provided they can be specifically identified to and benefit the project, are included and justified in the budget and are not specifically disapproved by the sponsor.

So what do you think? Can Dr. X purchase these three laptops used for general communication?

Keep in mind:

- **ALLOWABLE**
- **REASONABLE**
- **ALLOCABLE**
- **CONSISTENTLY TREATED**

Computers



Could you use a non-federal award to purchase a computer?

What factors would need to be considered?

Visiting Scientists



A department has an NIH award with a subaward with an international component. As part of the award, visiting scientists will be traveling to the US and staying in department-arranged housing.

Can the department charge sheets, televisions, cooking equipment, coats, and personal hygiene items to the grant?

Visiting Scientists



No. OSR checked with NIH and NIH indicated that unless NU institutional policy allows for these items, they are unallowable due to their personal nature.

Administrative/Clerical Assistant



My NIH modular R01 proposed in the budget a 6 calendar months administrative assistant position. It was awarded without any cuts in the budget. Can I go ahead and charge the assistant's salary to the R01?

Administrative/Clerical Assistant

No---just because the agency made the award itself alone is not ample justification for administrative expense. Why?

As a reminder, most federal agencies that use Research Terms and Conditions, RTC, delegate the responsibility to the institution receiving the award to apply the appropriate terms and conditions

This project does not meet A-21's definition of a "major" project.

In order to directly charge administrative expenses to federal sponsors, the administrative expenses must meet the criteria set forth in A-21 and campus policy regardless of the sponsor's approval.

Bulk Supplies

My research group uses thousands of pipettes each year for our investigations. We conduct research under three separate awards all of which require pipettes to carry out the technical scope. Each project proposal included the cost of pipettes in the budget and the cost was not specifically disapproved by the agency.

To take advantage of bulk pricing discounts, we would like to purchase pipettes three cases at a time and would like to rotate the purchases between three sponsored agreements, charging three cases purchased in January to the NSF, three more cases purchased in March to the NIH grant, then three more cases purchased in June to the Packard award, to assure each award gets a share of the total pipette cost.

Is this OK?

Bulk Supplies

1. Are the costs allowable? Yes
2. Is the allocation method reasonable? No—rotation of given expense would not be appropriate as the full costs does not exclusively benefit the project charged
3. What other alternate allocation method(s) would you propose? You could track use in a given month, or review the proposed budgets for planned use and then document your methodology for the allocation of the charge, so each grant bears the appropriate derived benefit

Patient Care Costs



Patient care costs – when do we get F&A on patient care costs, and when don't we?

Patient Care Costs



Refer to OSR policy: Treatment of Patient Care Costs on Federal Grants and Contracts

On federal grants and contracts, we cannot charge more than the Medicare rate NMH is reimbursed.

- The Medicare rate is a discounted rate over the actual charge.
- The actual charge includes F&A. Hence, patient care costs on federal awards do not take F&A to avoid double dipping

Can Professor Jones Include Communication Costs in her Proposal Budget?

Professor Jones has an NIH-supported grant that is housed in an off-campus building. The grant pays for the rental of office space, and the University charges its off-campus Facilities and Administrative (F&A) rate to the federal government. Dr. Jones is about to submit a new grant proposal to continue the same project and would like to charge the federal agency for phone costs. She writes:

“Clearly we cannot do research such as ours without being able to communicate, and I am sure our federal sponsor is aware of this. We exist as a research group and I would hope and expect that our research costs should be covered from our grants. If we did not receive research grants we would close shop and nothing would be left, so what expenses we have are clearly research-related.”

Can Professor Jones Include Communication Costs in her Proposal Budget?

First thought is: No

Considerations:

- Communication costs are part of F&A (A-21: F&A costs are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a sponsored project)
- Consistent treatment of costs in allocating direct and indirect

However...

- A-21 states that communication costs are allowable
- Off-campus F&A only recovers Aministrative portion of F&A; utilities and facility costs are not being recovered
- Therefore, the institution would not be collecting the communication costs twice (Consistent Treatment)

Can Professor Jones Include Communication Costs in her Proposal Budget?



In this situation, communication costs would be allowable

Explain in budget justification

What is another important consideration once it has been determined to be allowable?

Can Professor Jones Include Communication Costs in her Proposal Budget?

In this situation, communication costs would be allowable

Explain in budget justification

What is another important consideration?

Allocation basis!

Office of Inspector General (OIG)

OSR/ASRSP

Department of Health and Human Services (DHHS) Office of Inspector General (OIG)

Office of Inspector General (OIG)



- Each federal agency has an OIG that provides independent oversight of the agency's programs and operations
- Staffed with auditors, investigators, attorneys, scientists
- Assesses internal controls, financial management, information technology, and other systems that affect the operation of programs
- OIG is responsible for detecting fraud, waste, and abuse and for promoting efficiency and effectiveness in agency
- OIG's duties are carried out through a network of audits, civil/criminal investigations, and inspections

What can Trigger a Federal Audit?

- Lack of policies and procedures
- A-133 Single audit oversight
 - OIG Routinely Monitors
 - Cost or Compliance Issues
- Referral of issues to grant/program officer
 - Financial or performance issues
 - Site visit concerns
 - Complaints or allegations
- Hotline complaints, whistleblowers

Direct Charging

- Risks caused by:
 - Charges for normal administrative support inappropriately charged as direct costs
 - Office supplies such as pens, paper, computers, toner, postage, etc., are directly charged to grants in normal circumstances as opposed to unlike circumstances
 - Membership expenses, photocopying
 - Entertainment expenses
 - Payments are made on the basis of false invoices or non-existent companies (refer to new NU policy on vendors)

Direct Charging: What the Auditors Look For

- Charging grant for the salary of an administrative assistant when NU typically charges these costs as F&A and there is no justification for charging the cost as a direct cost
- Charging grant for a piece of equipment (or travel...) when the grant did not benefit from the equipment (or travel...)
- Charging grant for the salary of PI during new proposal development
- Charging grant for copying articles of general interest
- Charging grant for basic computer set-up and wireless service costs
- Charging grant for a laptop for the exclusive home use of a colleague when the colleague is only on the grant for 5% effort (there may be other issues with this scenario)

Allocability Issues

- Expenditure patterns - accelerated or delayed
- Charging costs at the end of the grant (especially equipment)
- Inadequate documentation/explanation of benefit for charges made to grants (e.g. P-card purchases)
- Inadequate substantiation of proportional benefit for allocation of costs among interrelated projects
- Rotation of charges among grants unacceptable

The Yale Investigation and Outcome



Yale University

“This settlement sends a clear message that the regulations applicable to federally-funded research grants must be strictly adhered to.”

*Nora R. Dannehy,
Acting United States Attorney*

The Yale Investigation and Outcome

Lessons learned....Undocumented Effort Reduction:

“The PI failed to provide the 25 percent level of effort proposed in the University’s budget justification document and related subgrant application. Furthermore, the University did not obtain prior approval from UMMS for the significant reduction in the PI’s planned level of effort. **The PI spent 9 percent of his effort working on the award from January through June 2001 and 5 percent from July through December 2001.**”

The Yale Investigation and Outcome

Apply the A-21 cost principles to your rational and follow the stated University procedures:

“Because the subgrant was awarded late, the University subsequently transferred salaries from general funds to the subgrant. **However, the transfers were neither properly authorized nor adequately supported by a specific, clear, and detailed explanation with related documentation as required.**”

“Transfers from other sponsored research projects ...were for salaries that were originally charged to other sponsored research projects. However, the University did not maintain adequate support and detailed documentation of the cost transfers as required. **Moreover, one e-mail initially provided to us to support two labor cost transfers had been altered.**

The altered e-mail requested cost transfers for two researchers’ salaries but did not contain a reason for the transfers. **The unaltered version stated that the transfers were needed to spend down the subgrant funds....”**

The Yale Investigation and Outcome

Allocation is important for you and the technicians in lab to understand...

“Of the 55 non-labor transactions that we reviewed, 18 charges totaling \$32,993 were unallowable. These transactions consisted of:

- 13 charges totaling \$23,834 for laboratory stockroom supplies and purchased chemicals and materials. **We found no evidence that these transactions had been properly approved and that the supplies had been used on this subgrant.**
- 2 charges totaling \$2,635 for internal DNA sequencing services. **Both requests for services came from researchers who could not be documented as having worked on the UMMS subgrant.**
- 3 charges totaling \$6,524 for maintaining equipment purchased under another sponsored grant. **The University did not provide sufficient information to show that the charges to this subgrant were equitable.”**

The Duke Investigation and Outcome

- Objective was to determine whether the University had claimed reimbursement for administrative and clerical expenses as direct costs to PHS federal awards.
- For the Period from 10/2002 through 9/2004, the OIG reviewed 114 charges for administrative and clerical salaries and 120 charges for other administrative costs.
- The government's final recommendation was for Duke to refund \$1,661,011 to the Federal Government and revise its policies as needed to comply with the requirements of OMB Circular A-21 and ensure consistent treatment of administrative and clerical costs.

The Duke Investigation and Outcome

In the audit introduction, the OIG defines responsibility and expectation of the federal government:

“In accepting grants...awarded by HHS and other Federal agencies, the University agreed to comply with regulations governing the use of Federal funds and ensure that costs charged to those grants...were allowable under the cost principles established in Office of Management and Budget (OMB) Circular A-21 (the Circular).

These cost principles require that, to be allowable, costs must be reasonable, be allocable, conform to any exclusions or limitations set forth in the cost principles or sponsored agreements, and be given consistent treatment through the application of generally accepted accounting principles.”

The Duke Investigation and Outcome

Clerical Disallowances:

Clerical salary for administrative support to put together the annual progress report, however, no explanation was provided why the production of an annual report, which is required of almost every sponsored project awarded to the University, might be interpreted as requiring an “extensive amount of administrative or clerical support”

Clerical salary for a project to arrange travel for the study assessment teams, however, the detailed project budget included only \$10,811 of total staff travel costs over the year and no evidence was provided that the effort involved in arranging this travel was significantly greater than the routine level of such services provided by academic departments

The Duke Investigation and Outcome

Administrative Disallowances:

Office supplies such as pens, printer cartridges, and a hole punch

Computer: The University charged an NIH-funded project \$3,364 for a laptop computer and asserted that the computer was used solely for project data and allowed the employee “the opportunity to work from home or wherever she may be located at anytime of the day.” We noted, however, that the involved employee was budgeted to devote only 5 percent of her University time to the project charged for her computer.

Two Letter Trays: The University asserted this was a major project that required “separate files for patient and site information in accordance with the scope of work”

The Duke Investigation and Outcome



In closing the OIG acknowledged...

“While the University’s policies and procedures were generally effective, some University employees did not always comply with them. Accordingly, the University agreed to continue the process of revising its policies, procedures, training, monitoring, and other internal controls as needed to ensure that the University remains fully compliant with applicable Federal criteria.”

FSM Research Administrators' Workshop Series



Thank You!

Questions and Discussion

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