Making Sense of Circular A21: What Does it Mean to Me?

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Track: Pre/Post Track
Audience: All
S10

Allowable Cost

– Reasonable
– Allocable
– Consistent Treatment of like costs
– Conform to any limitations in the Principles or in the sponsored project agreement
Assessing Whether a Cost is Allowable or Unallowable

• A cost may be “expressly” unallowable, i.e., it is always unallowable as either a direct or indirect.
  – Unallowable activities: fund raising, alumni relations, lobbying, etc
  – Unallowable transactions: alcohol, entertainment, fines, etc.

• A cost may be allowable but only as an indirect (F&A) cost, not a direct charge, e.g., proposal preparation

• A cost that is allowable as a direct charge should not be included in the F&A rate, e.g., salary of technician

Caution on Allowability

• An “allowable” cost is one that is eligible for reimbursement by the federal government.

• Contrast with:
  – PERMISSIBLE BY INSTITUTION: A cost is permitted by institution, as outlined in its various administrative policies or procedures.
  – ALLOWABLE BY AGENCY: A cost is permitted by the policies of the sponsoring agency or the terms or an award.

• An "unallowable" cost is one that is not eligible for reimbursement by the federal government.
Reasonable

- Prudent person test
- Generally recognized as necessary for the operation of the institution (F&A) or the sponsored agreement
- Arm’s length bargaining
- Federal and State laws and regulations
- Sponsored agreement terms and conditions
- Individuals acted with due prudence
- Extent to which the actions are consistent with institutional policies and practices

Allocable

- Relative benefits
- Incurred solely for that sponsored agreement or other work of the institution (F&A)
- Benefits both the sponsored agreement and other work of the institution in proportions that can be approximated
- Necessary to the overall operation of institution and is deemed assignable in part to sponsored programs
- Cannot be shifted to other sponsored agreements to meet deficiencies nor from non-federal to federal
Direct Cost Allocation

- Cost principles
- Internal controls
- Direct cost principles
- Documentation

Direct vs. F&A (Indirect)

- DS-2 Disclosure Statement
- University policies and procedures
- A-21 Guidance
Hot Topics for Direct Cost

- Admin and Clerical Salaries
  - Normally unallowable except:
    - 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.
    - Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs

- Source: A-21 F6(b)

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Hot Topics for Direct Cost

- Non-salary examples

- Source: A-21 F6(b)
  - Alcohol, food, entertainment (J3, J17)
  - Proposal preparation costs (J38)
  - Lobbying (J28)
  - Memberships, subscriptions and professional activity costs (J33)
  - Publication and printing costs J39)
  - Office Supplies (J31)
  - Goods and Services for personal use (J22)

Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs (A-21, Exhibit C)
Handouts / Supplemental Materials
**Direct Costs:** Costs that can be identified specifically with a particular sponsored project or that can be directly assigned to such activity relatively easily with a high degree of accuracy. The criteria used to define allowable direct cost is as follows:

1. The cost must conform to any limitations or exclusions stated in generally accepted accounting principles or in the sponsored agreement, i.e., the cost must be **allowable** and not specifically designated as unallowable by regulation or grant/contract specific award conditions.
2. It must be **allocable** to the sponsored project, i.e., the cost is incurred for the benefit of only one project or the item can be easily assigned to multiple benefiting projects. A specific project may only be charged that portion of the cost which represents the direct benefit to that project.
3. The cost must be **reasonable**, i.e., the cost is generally recognized as necessary for the performance of the project and is one that a prudent person would consider reasonable given the same set of circumstances.
4. The cost must be treated **consistently** with other similar costs incurred in like circumstances in accordance with generally accepted accounting principles.
TREATMENT OF ADMINISTRATIVE AND CLERICAL SALARIES UNDER NIH GRANTS AND
COOPERATIVE AGREEMENTS AWARDED TO EDUCATIONAL INSTITUTIONS

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National Institutes of Health
In July 1993, OMB Circular A-21, "Cost Principles for Educational
Institutions," Section F.6.b., was revised to define the criteria for charging
salaries of administrative and clerical staff to Federally sponsored grants and
cooperative agreements. This revision clarified 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 that is significantly greater than
the routine level of such services provided by academic departments. The
charging of these costs directly 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 these
services would need to be justified to the satisfaction of the awarding agency
in the grant or cooperative agreement application.

Some examples of circumstances where direct charging the salaries of
administrative or clerical staff may be appropriate are as follows:

- 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.

- Projects that 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.

- Projects that require making travel and meeting arrangements for large
numbers of participants, such as conferences and seminars.

- Projects where the principal focus is the preparation and production of
manuals and large reports, books and monographs (excluding routine progress and
technical reports).

- 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.

- Individual projects requiring significant amounts of 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 charging
of administrative or clerical salaries would always be appropriate for the
situations illustrated in the examples above. Where direct charges for
administrative and clerical salaries are made (as with other administrative
type costs, e.g., telephones, postage, books and journals), care must be
exercised to assure 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.

NIH Implementation

For those institutions subject to OMB Circular A-21, the NIH will implement the revision effective with budget period start dates on or after October 1, 1994, for competing grants and cooperative agreements. For noncompeting grants and cooperative agreements, the NIH will not make any adjustments to the committed level, nor will future year commitments be adjusted. Nonetheless, the principles of A-21 address the appropriate allocation of these costs with implementation based on the negotiated indirect cost rate agreement in effect for each institution. Thus, grantee institutions that have negotiated indirect rates based on the revised principles contained in Section F.6.b may not directly charge administrative or clerical salaries when inconsistent with the Circular, even though these costs may not have been deleted from the noncompeting award.

This revision also affects any postaward rebudgeting of funds for the purpose of charging administrative or clerical salaries. Where grant or cooperative agreement applications do not anticipate the need to directly charge administrative and clerical salaries, institutions may rebudget funds, without awarding office prior approval, to cover these costs when consistent with the criteria and examples described above. For example, administrative or clerical salaries not identified in the application could be charged to the Training Related Expenses associated with Institutional National Research Service Awards (T32) when the activity involves a large amount of tracking and completion of forms directly related to the purpose of the grant.

The implementation of this revision will not have any impact on the peer review of grant applications. Reviewers will continue to base any recommended budget reduction on whether the cost requested is warranted or justified for the project. Reviewers should not recommend deletion of requested administrative and clerical staff salary support based solely on the provisions contained in Circular A-21. The awarding unit staff will determine, in accordance with A-21, whether or not the costs are allocable as a direct cost under the particular project.

INQUIRIES

Questions should be addressed to the awarding agency's Grants Management Officer when it is unclear whether or not administrative or clerical staff salaries may be charged directly.
Duke University
Direct Cost Exception Form Instructions

The purpose of this form is two fold:


2. Provide documentation to justify costs that could be questioned during an audit – Non-labor direct costs.

ADMINISTRATIVE AND CLERICAL EXPENSES

To comply with Office of Management and Budget (OMB) Circular A-21, Cost Accounting Standards (CAS) and Duke University General Accounting Procedures, certain types of costs are normally considered part of our Facilities and Administrative (F&A) costs. Certain circumstances can exist that would allow for these expenses to be charged as direct cost to a Federal project. When such a circumstance exits, this form allows for the documentation of such a circumstance.

The forms should accompany an award by a Federal Sponsor or awards involving Federal flow through monies.

Form I. ADMINISTRATIVE AND CLERICAL EXPENSES SALARIES

Normally, administrative or clerical salaries are treated as Facility and Administrative (F&A) costs. Specific examples of selected items of cost and whether they should be treated as direct costs or F&A costs can be found in GAP 200.320 Direct Costing on Sponsored Projects and GAP 200.330 Facilities and Administrative (Indirect) Costs on Sponsored Projects.

Principal Investigators may request an exception in order to direct charge labor that is normally treated as an indirect cost. One example of when it is acceptable to charge administrative or clerical salaries to a Federal grant is when it is considered a major project.

Form I. For Item 1, select the example that best describes the project. For Item 2, describe how your project qualifies for the major program designation. For Item 3, list all administrative or clerical positions and, if available, list the name of the Duke employee that will fill the position.

Form II. NON-LABOR DIRECT COSTS

This Form pertains to costs normally considered to be administrative and included in the Facilities and Administrative costs. Identify each budget category and the estimated expense. Explain why the items are necessary to accomplish the specific aims of the project. Provide a detail justification to support the program activities.

Obtain PI and department signatures and route to the designated pre-award (ORS or ORA). Upon approval, the pre-award office will route to OSP. An approved copy will be emailed to the designated individual.