Guidelines For Charging Direct Costs on Sponsored Projects

Purpose

The purpose of this document is to ensure that the University of West Georgia (UWG) complies with the Federal Office of Management and Budget (OMB) standards regarding the charging of direct costs on sponsored projects. Direct costs charged to sponsored projects must be allowable, allocable, and reasonable. OMB provides the standards to which UWG must conform in Circular A-21, Cost Principles for Educational Institutions (http://www.whitehouse.gov/omb/circulars_a021_2004) and A-110, Uniform Administrative Requirement for Grants and Agreements with Institutions of Higher Education (http://www.whitehouse.gov/omb/circulars/a110/a110.html).

Definitions

**Direct costs** are costs associated with a specific sponsored project that can be directly assigned to essential activities with relative ease and a high degree of accuracy. They include such costs as personnel (salaries and fringe benefits), supplies, equipment, travel, and other expenses necessary to conduct the sponsored activities (Circular A-21: Section D1).

**Sponsored activities** are those externally funded activities that must be separately budgeted and accounted for according to the terms of the sponsoring organization, State regulatory precepts, and UWG policy. Sponsored projects include grants, contracts, and cooperative agreements with any Federal Agency, State Agency, or non-Governmental Organization that supports research, training, and public service activities.

**Facilities and administrative (F&A) costs**, for the purpose of this policy, are defined as 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. F&A costs are synonymous with "indirect" costs, as defined in OMB Circular A-21.

Determining Factors

In making payments for activities funded by grants, contracts, and cooperative agreements, the university department/unit administering the project must determine whether the costs are allowable, allocable, and reasonable.
**Allowable Costs**

To be **allowable**, a cost must be authorized for payment under the terms of the award made by the sponsor (Circular A-21: Section C2). Ask this question: "Will the sponsor pay for this expense?" The tests as to whether a cost is **allowable** are:

a. the cost must be reasonable;
b. it must be possible to allocate the cost to a sponsored project using the principles and methods provided by the cognizant federal or state regulations;
c. the cost must be given consistent treatment by application of generally accepted accounting principles appropriate to the circumstances and in compliance with UWG's Disclosure Statement; and,
d. the cost must conform to any limitations or exclusions set forth in Circular A-21, the award document, the sponsoring agency's guidelines in terms of types or amounts of cost items, State regulations, and UWG policy.

**Allocable Costs**

A cost is **allocable** if a specific good or service is chargeable or assignable to a particular cost objective (i.e., a specific function, project, sponsored project, department, etc.) in accordance with the relative benefits received or other equitable relationship (Circular A-21: Section C4). Ask this question: "Is the expense related to the project?" The tests as to whether a cost is **allocable** are:

a. the cost is incurred solely to advance the work of the sponsored project;
b. the cost benefits both, the sponsored project and other work, of the institution in proportions that can be approximated through use of reasonable methods; or,
c. the cost is necessary to the overall operation of the institution based on the principles in Circular A-21 or as deemed assignable by the sponsored project.

**Note**: In the case of equipment or other capital items purchased with specific authority of a sponsored award, the amount authorized for such purchases is assignable to the sponsored project regardless of the use that may subsequently be made of the items. Any cost allocable to a particular sponsored project according to the standards of the project may not be shifted to other sponsored projects to compensate for overruns, other reasons of convenience, or to avoid restrictions in law or the terms of the sponsored award. Neither may costs allocable to activities sponsored by industry, foreign governments, or other sponsors be shifted to federally-sponsored projects.

**Reasonable Costs**

A cost is considered **reasonable** if the nature and amount of the goods or services acquired for or applied to a specific sponsored project reflect the actions of a prudent person under the circumstances prevailing when the decision to incur the cost was made (Circular A-21: Section C3). Ask the question: "Is the expense reasonable?" Major considerations in determining the **reasonableness** of a cost are:
a. whether or not the cost is generally recognized as necessary for the performance of the sponsored project or the operation of the institution;
b. the restraints or requirements imposed by factors such as arm's-length bargaining, Federal and State regulations, terms and conditions of a sponsored agreement, or agency guidelines;
c. whether or not the individuals acted with prudence in considering their responsibilities to the institution, its employees, its students, State or Federal Government, and the public at large; and,
d. whether or not the actions taken to incur the cost are consistent with established institutional policies and practices applicable to the work of the institution generally and inclusive of sponsored projects.

**Determination Strategy**

The first question to ask in making a determination as to whether a particular cost on a sponsored project is allowable, allocable, and reasonable is: Does the cost benefit the project? While a prudent person might have proposed a certain cost that is no longer necessary at the point a project is funded, rebudgeting must ensure continued benefit to the project in question rather than benefitting a different project or purpose. Several documents can be reviewed to help determine whether a particular cost is allowable, allocable, and reasonable. While the following list is not exhaustive, it does provide a reasonable course of action that, for many circumstances, will provide a measure of confidence as to the allowable, allocable, and reasonable nature of individual costs.

**Approved Project Budget**

The first document to review is the agency-approved budget for the project. Does the proposed expense appear as a line item in the budget? If the item does not appear in the budget, the item may be allowable under rebudgeting authority or with prior approval in writing from the funding agency.

**Award Document or Contract**

The allowability of certain costs may be addressed in the award document or the contract issued by the sponsoring agency. In some instances, grant awards may identify certain costs based on recommendations from the peer review system that are specifically not allowed by the sponsoring agency.

**Agency Guidelines**

Most agencies have guidelines for administering awards that give direction on allowing certain costs. Travel costs may appear in the budget, for example, yet the specific cost of airfare to attend a meeting in Europe may require prior approval according to the guidelines of the sponsoring agency.
OMB Circulars A-21 and A-110

The primary regulations governing the determination of whether costs are allowable, allocable, and reasonable on federal grants, contracts, and cooperative agreements, are found in OMB Circulars A-21 and A-110. They also serve as the guidelines followed by UWG in making similar determinations on all externally sponsored projects. Section J of Circular A-21 identifies allowable costs and provides guidance on how these costs are to be charged directly to a sponsored project or allocated as facilities and administrative (F & A) costs. The institution is expected to be consistent in its treatment of expenses, but Circular A-21 also provides guidelines for determining when an exception can be made. While “like” circumstances must be treated the same, there is a degree of latitude with “unlike” circumstances.