This session will examine the concepts and principles associated with charging allowable costs to sponsored projects.

The allowability of costs incurred by institutions of higher education is determined in accordance with the provisions of Office of Management and Budget (OMB) Circular A-21, "Cost Principles for Educational Institutions."
OMB Circular A-21 establishes the principles for determining the costs applicable to research and development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the Federal Government.
Other important OMB Circulars:

- **A-110** – uniform administrative requirements covering pre-award requirements, program income, property and procurement standards, cost sharing, reporting, terminations and close-out requirements
- **A-133** – defines the audit requirements and explains the responsibilities of the institution, the agency and the auditor

Links to the OMB Circulars are located on the ASRSP Web Site: http://www.northwestern.edu/asrsp/policies.html
TERMINOLOGY

- GRANTS
- CONTRACTS
- COST PRINCIPLES
- DIRECT COSTS
- INDIRECT COSTS (F&A)
- UNLIKE CIRCUMSTANCES
- UNALLOWABLE COSTS
- COST TRANSFERS
Grant: Financial assistance mechanism providing money, property, or both to an eligible entity to carry out an approved project or activity

Contract: A contract is used to acquire property or services for the federal government’s direct benefit or use

From NIH & GRANTS.GOV
These principles govern costs that may be charged to the government by educational institutions either directly or indirectly.

Northwestern University generally applies these same cost principles to non-federal funding as well, although in some exceptional cases, non-federal sponsors may define allowable/unallowable costs differently than federal sponsors.
Northwestern University follows the federal principles outlined in OMB Circular A-21, Cost Principles for Educational Institutions, including the Cost Accounting Standards contained therein, as well as specific terms and conditions of individual sponsored agreements, to determine whether it is appropriate to charge a given cost to a sponsored agreement.

Specifically, there are four guiding principles or criteria used to determine whether a cost can be charged to a sponsored agreement. Is the cost:
- Allocable?
- Allowable?
- Reasonable?
- Treated Consistently?

To be charged to a sponsored agreement, any charges must meet all four criteria.

These criteria apply for both direct and indirect (Facilities & Administrative) costs.
A checklist and guidelines on the fiscal responsibility for sponsored projects is available to the Principal Investigator (PI) to assist in monitoring the transactions on their awards – the checklist emphasizes the four principles per the OMB Circular A-21:

- Costs must be **ALLOWABLE** as defined by OMB Circular A-21, Section J and/or the terms and conditions of the particular award
- Costs must be **ALLOCABLE** -- the cost must have a demonstrable and specific benefit to the sponsored project to which it is charged
- Costs must be **REASONABLE**, that is, the cost must reflect what a “prudent person” would pay
- Costs must be treated **CONSISTENTLY** across the University, that is, costs must be treated in the same manner (as either direct or indirect) when used in like circumstances
Specific Review:

- The following elements should be considered when reviewing the activity on a specific sponsored project:
  - √ Effort committed by the PI and other key personnel in the budget have been fulfilled; effort reports completed for the period document that committed effort was met.
  - √ Payroll expense by individual has been verified; payroll charged to the project accurately reflects individuals who worked on the project and is commensurate with (or, if cost sharing, less than) actual time spent.
  - √ Non-labor expense has been verified by expense account; all direct non-labor costs charged to the project specifically and proportionately benefited the project; no costs related to another activity, including another sponsored project, were charged to the project.
  - √ Expenses charged to the project were incurred within the applicable project period.
  - √ Cost sharing requirements, if applicable, have been fulfilled and can be documented either through effort reports (for salary cost sharing) and/or through expenditure activity on projects designated to capture the cost sharing.
  - √ Facilities and Administrative (F&A) and fringe benefit rate assessments appear appropriate.
  - √ Program income, if applicable, has been reported.

(Program income is defined as gross income earned by an applicant organization that is directly generated by a [sponsor] supported activity or earned as a result of an award)
For a cost to be considered reasonable, it must be:

- Recognized as necessary for the operation of the institution or the performance of the agreement
- Consistent with the requirements imposed by arms-length bargaining, federal or state laws, and regulations, and ethical business practices
- Related to an action and/or in an amount deemed within the norms of business conduct (i.e., passes the “prudent person” test)
For a cost to be considered allocable, it must:

- Be incurred solely to advance the work under a sponsored agreement, or
- Benefit both the sponsored agreement and other work of the institution, in proportions that can be approximated through the use of reasonable methods, and
- Be assignable to the benefitting activities without undue effort or cost (in accordance with the relative benefits received by the project)
For a cost to be considered allowable, it must:

- Not be designated as “unallowable” under Section J of OMB Circular A-21 (More about Section J coming up)
- Adhere to agency-specific policies and award-specific terms and conditions regarding items of cost
- Adhere to University policies regarding specific items of cost
For a cost to meet the requirement of consistency, it must be treated in the same manner (i.e., as either direct or indirect) when used in like circumstances.

“The fact that a cost requested in a budget is awarded, as requested, does not ensure a determination of allowability. The organization is responsible for presenting costs consistently and must not include costs associated with their F&A rate as direct costs.”

– NIH Grants Policy Statement
A **Direct Cost** of a sponsored agreement is one that can be identified specifically with that sponsored project or that can be assigned to the sponsored project relatively easily with a high degree of accuracy.

- **Examples include:**
  - PI Salaries
  - Scientific Equipment
  - Travel Costs
  - Subcontract Costs
INDIRECT COSTS

Indirect Costs (referred to as Facilities & Administrative, or F&A) are those costs that are incurred for common or joint objectives and cannot be identified readily or specifically with a particular sponsored project, or any other institutional activity.

Examples include:
- Building & Equipment Depreciation
- Operations & Maintenance (e.g., utilities, janitorial services)
- Costs of University’s libraries
- Materials, supplies and services of a more general nature, such as office supplies, general administrative copying and office equipment
UNLIKE CIRCUMSTANCES

- Defined as an activity/use of the cost item that is substantively greater in amount or different in purpose than is typical

- In order to direct charge a cost that would ordinarily be charged as indirect, all of the following requirements must be met:
UNLIKE CIRCUMSTANCES

- The project has an **extraordinary need** for the item or service that is beyond the level of services normally provided by department administration.

- The cost can be specifically identified to the technical scope of work conducted under the project and is appropriately documented.

- The cost is specified in the proposed budget of the project, and **the special circumstances requiring direct charging are justified in the proposal**.

- The sponsoring agency accepts (i.e., does not specifically disapprove) the cost as part of the project’s direct cost budget.
Select Unallowable Costs (OMB A-21, Section J):

- Advertising and public relation costs (with specific exceptions)
- Alcoholic Beverages
- Alumni Activities
- Bad Debts
- Commencement Costs
- Contributions and Donations
- Entertainment
- Fines and Penalties
Select Unallowable Costs Continued:

- Goods and Services for Personal Use
- Housing and Personal Living Expenses
- Interest, Fund Raising and Investment Management Costs
- Lobbying
- Memberships in Country Clubs, Social, Dining, or Civic Organizations
- Selling and Marketing
Definition: A cost transfer is the assignment of an expense or expenditure (charge) to a federally or non-federally funded account that was initially recorded in another account.

FROM OMB A-21:

“...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.”
Cost Transfer Guiding Principles

- Cost transfers are for correcting errors
- Cost transfers should not be used as a means of managing available cash balances
- Project funds are not interchangeable (the integrity of each grant account must be maintained)
- Fundamental reasonableness, allowability, allocability, and consistency of costs must still be established
- Costs allocable to several projects cannot be charged solely to a single project
- Costs not allocable to a project cannot be charged to that project, even temporarily
- All cost transfers should be completed within 90 days of their original transaction date
Which of the following cost transfers may result in heightened audit risk?

- A. Transfers in the last month of the award or after the award has ended
- B. Round number transfers
- C. Transfers without a full detailed explanation
- D. Transfer to or between sponsored projects
- E. All of the above
SELECT ALLOWABLE COSTS

- Subcontracting
- Consulting
- Equipment
- Supplies
- Travel
- Salaries / Effort Reporting
With respect to subcontractors, Accounting Services for Research and Sponsored Programs (ASRSP) reviews subcontract invoices to insure that:
- the subcontract agreement has been signed by all parties
- the expenses are within the budget period
- the total expenses to date do not exceed the awarded amount
- the invoice has not been paid previously

Before payment, ASRSP requires that the PI review and approve the invoice for appropriateness, reasonableness and compliance with University and sponsor guidelines and that acceptable progress was made by the subrecipient.
- ASRSP does not approve the invoice for payment until the PI signs the invoice indicating that this review is complete

Additionally, Northwestern University’s Standards of Business Conduct explicitly require individuals involved at any stage of the purchasing process take responsibility for understanding and implementing the University’s policies and procedures regarding purchasing and vendor relations.
Consultant services must meet the four guiding principles of allowability, allocability, reasonableness and consistent treatment.

NU requires that a contracted services form be completed to initiate the payment of an individual consultant (i.e., not a company)

On the contracted services form, the consultant must certify that the payment will not be required prior to the performance and completion of the services and that the individual was not classified as an employee of Northwestern University within the last 12 months. The certification states:

- I understand that payment will not be issued until performance and completion of the contracted services, and that the date of payment cannot be prior to the work completion date. I understand that agreed upon expenses will not be reimbursed unless I complete a Visitor Expense Report and attach original receipts. I certify I have not been paid as an employee of Northwestern within the last twelve months. I understand that this payment does not include any employment benefits or tax deductions and that the payment of these is my responsibility.
The PI retains any deliverables produced from the consultant and is in the best position to certify the expenditure.

On the contracted services form, the PI must certify that the costs incurred were in conformance with the policies.

Specifically, the PI certifies:

- I approve the payment for services and expenses noted above. The cost was incurred in conformance with the current HR policy on Independent Contractors and Consultants on the Northwestern website. If charged to a Sponsored Project account, it is understood and agreed that these expenditures are subject to review and audit and if found to be unallowable, they will be transferred to a non-sponsored departmental account. The payment requested includes only the expenses associated with the contracted services, is not in payment of honorarium or for subsistence, and is not in avoidance of immigration restrictions, Affirmative Action requirements, payment of fringe benefits, statutory taxes, fees, insurance premiums or any other applicable statutory employment regulation.
Payment to individuals providing consulting services on sponsored awards must be also be approved by ASRSP and Office for Sponsored Research (OSR).

ASRSP review includes ensuring:
- The period of service is within the project period
- The amount is a reimbursement of expenses
- The payment has been approved by the department and school level management
- The consultant and PI have signed the form
- The amount and description of services appear reasonable
- The invoice is attached from the consultant
- The dates, amounts and description match the contracted services form.

Once reviewed by ASRSP, the form and invoice are forwarded to OSR.

OSR personnel then compare the invoice and contractor services form, noting consistency between the documents, PI approval, and reasonableness and appropriateness of the consultant’s hourly rate (where applicable), and that the services appear appropriate for the specific grant and the goals of the project.
For companies, an invoice is submitted through the system for payment and then must be approved by the department and school level management (depending on the dollar threshold of the transaction).

Newly established practice requires the PI to certify the invoices for companies as well as the contracted services forms for individuals.

Once the invoice is submitted, it is reviewed by the department/division, which is the first level of review and is in a position to substantiate the completion of the services requested.

Following department/division approval, ASRSP personnel then review the invoice to ensure:
- The service falls within the project period
- The amount and description of services appear reasonable
NU defines capital equipment as tangible property having an acquisition value of $5,000 or more and a useful life expectancy of more than one year.

Equipment purchases must meet the four guiding principles of allocability, allowability, reasonableness and consistent treatment, and follow similar approval processes as noted for sponsored expenditures.

In addition to the approval processes noted previously, Northwestern University also maintains an equipment inventory to track capital equipment.

The inventory includes capital equipment in many of Northwestern’s buildings as well as some off-site locations.
Through its property accountant, Accounting Services is responsible for tagging each new piece of capital equipment that has an original cost or setup valuation of $5,000 or more and recording its description, location and accounting information in the computerized database inventory system.

Accounting Services property control coordinator sends a re-inventory listing of capital equipment to assure the accuracy of the inventory records.

- The property control coordinator reviews the returned signed completed listings along with reviewing transactions within the capital account to ensure they were properly accounted for.

Guidelines for equipment are also referenced in the Standards of Business Conduct.

- Federally titled equipment may not be sold or given away without the permission of the original federal granting agency.
Computers and electronic devices are generally used for many different activities (for example, instruction, research administration, email, personal use). Based on these activities, the default presumption is that these devices cannot be justified as allowable direct charges to a sponsored project.
GENERAL PURPOSE EQUIPMENT

- NIH Web Site: http://grants.nih.gov/grants/developing_budget.htm
- General purpose equipment, such as desktop computers and laptops, that will be used on multiple projects or for personal use should not be listed as a direct cost but should come out of the F&A costs, unless primarily or exclusively used in the actual conduct of the proposed scientific research.
In specific situations, the purchase of personal computers can be an allowable direct charge to a sponsored project when the conduct of the research requires a computer (e.g., the computer is attached to a piece of equipment and is required for the collection or analysis of data, or the computer is specifically needed to record data while in the field).

For such cases, the computer must be used primarily (at least 95%) for the programmatic conduct of the project.
Northwestern University does not allow personal computers on sponsored projects unless unlike circumstances have been documented:

- The need has been included in the original proposal and completely justified as to the reason it is included.
- The purpose and benefit to the project has been fully defined – how it directly benefits the project and how it is different from similar items provided by the department (that are treated as F&A).
- The important action is to fully document the justification (purpose and use) very clearly in the proposal and spell out the direct relationship between the use of the computer and the ability to perform the research.
OSR must approve of the request, and once full documentation has been provided to the sponsor, the University will allow the purchase on the project unless the sponsor has disapproved the request.
If the need for a computer develops during the project and was not requested in the original budget, the PI must provide documentation of unlike circumstances to OSR for review and approval.
Q: Under what circumstances can a student purchase a computer on an NIH Institutional Training Grant?

A: When the nature of the science & training program requires it and it conforms to the OMB A-21 cost principles.

- For instance, studies that require a lot of statistical data gathering and analysis are relevant for this purpose. However, if used more than on an incidental basis, for routine daily activity (e.g., email, facebook, twitter), then this is not an allowable direct cost.
From a recent NIH Notice of Award to Northwestern:

- Supplies requested funds for computers, printers, and toner cartridges are considered general use and readily available to personnel. The funds requested for these items have not been awarded.
- Other Expenses requested for participant snacks are not considered justified as research costs, and have not been awarded.
Items such as office supplies, postage, local telephone costs, and memberships are normally treated as F&A costs and are not allowed to be charged to sponsored projects.
Travel expenses must meet the four guiding principles of allowability, allocability, reasonableness and consistent treatment.

NU’s Entertainment and Courtesy Policies and Procedures provide guidance on in-town meal reimbursements:
- In-town meal reimbursements are allowable if there is a legitimate business purpose involving non-University personnel.
- The inclusion of University employees for in-town meals should be moderated as much as possible (e.g., no more than 2-3 other employees in attendance).

NU’s Travel Policy also provides guidance on allowable travel expenses, noting specific exceptions as they relate to sponsored awards.
Per NU Policy, the following are travel expenditures not reimbursable by the University:

- First-Class airfares
- Business class airfares (unless scheduled flight time, including stopovers/plane changes, exceeds 12 hours)
- Airline upgrades
- Airline clubs
- Books, magazines, or newspapers for personal use
- Child-care, babysitting, house-sitting, or pet-sitting/kennel charges
- Commuting between home and campus
- Corporate charge card delinquency assessments (unless traveler did not cause assessment)
- Costs incurred by traveler's failure to cancel transportation or hotel reservations in a timely fashion
- Evening-wear rentals or formal wear expenses
- Gifts or flowers
- Haircuts and personal grooming
- Laundry, dry-cleaning (An exception may be made for extended foreign travel with receipts), or shoeshine services
- Passports, vaccinations, and visas, when not required as a specific and necessary condition of the travel assignment
- Personal entertainment expenses including in-flight movies, headsets, health club facilities, hotel pay-per-view movies, in-theatre movies, social activities and related incidental costs
- Travel accident insurance premiums and/or purchase of additional travel insurance (with the exception of international health insurance)
- Other expenses not directly related to the performance of the travel assignment
To claim reimbursement, the traveler must complete a travel expense report (T&E) and provide supporting documentation (receipts) for any claimed expenses.

Travelers must certify that:
- The request for reimbursement represents items expensed for University-related activities
- They are in accordance with University policies and procedures
- They have not or will not be reimbursed from another NU chartstring or another organization for the expenses

For sponsored project expenses, the certification also notes that no charges for alcoholic beverages or other unallowable expenses were included.

Specifically, the traveler certifies:
- *I certify that I have paid out these amounts for University-related activities in support of the business purpose listed and in accordance with University policies and procedures, that sponsored project expenses contain no charges for alcoholic beverages or other unallowable items, and that I have not previously received nor will I receive separate reimbursement from Northwestern University or any other entity for any charge I am submitting on this form.*

In addition to the traveler, the PI or hiring representative must certify as follows:
- *I certify that these expenses were incurred for University-related activities and approve them as proper charges to University accounts.*
The appropriate department/unit personnel review and approve the travel expense report (T&E) and forward the T&E along with the supporting documentation to ASRSP for review and approval.

ASRSP reviews the documentation to ensure:

- All receipts are included
- The traveler and PI have signed the form
- The travel has already been completed
- The travel occurred within the period of the grant
- The claimed expenses comply with applicable University and sponsor policies
For all exempt salaries charged to a sponsored project for personnel (e.g., PIs, research assistants, post docs) the quarterly effort report is used as audit documentation supporting the salary charge.

For all non-exempt salaries charged to a sponsored project for personnel (e.g., technical staff) the bi-weekly time sheet is used as audit documentation supporting the salary charge.
“The salaries of administrative and clerical staff should normally be treated as F&A 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. "Major project" is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments.”

(OMB A-21-Section F.6.b.2)
As a recipient of significant external funding, the University must assure Federal and other sponsors that the assignment of time and associated salary and fringe benefit costs to the projects they sponsor is fair, consistent, and timely.

The University fulfills this responsibility through Effort Reporting.

A basic regulatory framework for effort reporting is provided by select federal regulations, principally OMB Circular A-21 and other publications such as the Department of Health and Human Services Public Health Service Grants Policy.

OMB A-21, Section J. 10 provides examples of acceptable methods for Effort Reporting (activity reports), including the After-the-Fact method.

- The After-the-Fact method is used by a majority of institutions
In a given *quarter*, the certified % of effort must be equal to or more than the % of salary charged and cost-shared to the grant

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<td>• If salary charges are greater than effort expended, salary must be adjusted</td>
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SUMMARY

ALL COSTS CHARGED TO SPONSORED PROJECTS MUST BE:

ALLOWABLE
ALLOCABLE
REASONABLE
TREATED CONSISTENTLY

AND FULLY DOCUMENTED & JUSTIFIED
THANK YOU FOR ATTENDING

ANY QUESTIONS?