

Northwestern University Policies

Title: Charging Sponsored Projects

Applicable to: Deans, Directors, Department Heads, Faculty, Finance Personnel, and Sponsored Project Personnel

Effective Date: November 14, 2006

Overview

In determining whether it is appropriate to charge (assign) a given cost to a sponsored agreement, 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.

This policy statement and the guidelines and definitions contained within are consistent with the language and policies referenced in Northwestern University's Disclosure Statement (DS-2). The disclosure statement, as required by the Code of Federal Regulations, provides general university information and details the cost accounting practices of the University – it is the principal source of institutional policy for charging sponsored projects.

The Four Guiding Principles

Specifically, there are four guiding principles or criteria used to determine whether a cost can be charged to a sponsored agreement: **reasonableness, allocability, allowability, and consistency**. These criteria apply for both direct and indirect (or Facilities & Administrative) costs, which are defined below. For a given cost to be charged to a sponsored agreement, all four (4) of these criteria must be met.

Reasonableness

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, and
- related to an action and/or in an amount deemed within the norms of business conduct (i.e., passes the "prudent person" test).

Allocability

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 benefiting activities without undue effort or cost.

Allowability

For a cost to be considered **allowable**, it must:

- not be designated as "unallowable" under Section J of OMB Circular A-21,
- adhere to agency-specific policies and award-specific terms and conditions regarding specific items of cost, and
- adhere to University policies regarding specific items of cost.

Per the NIH Grants Policy Statement (Part II): "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."

Consistency

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. This means that for all categories of costs, all activities within the University must account for such in the same manner when incurred in similar circumstances.

Further elaboration is necessary regarding the consistency criterion, starting with the fundamental definitions of a direct versus an indirect cost.

Direct Costs

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.

General cost categories that may be charged as direct costs to individual sponsored agreements include, but are not limited to, the following:

- Salaries, Wages, and related Fringe Benefit costs of sponsored project personnel. Such individuals typically include the Principal Investigator(s), research associates/assistants, and technicians.
- Laboratory/Scientific/Technical Materials, Services, and Supplies obtained from internal as well as external vendors.
- Scientific Equipment Costs
- Travel Costs
- Consultant/Subcontract Costs
- Lab notebooks, data storage supplies, and report binders. Documentation must exist, which shows that these supplies are used exclusively in support of the project and are consumed completely in the course of the project.
- Other Direct Costs as specifically required, budgeted, and/or approved as necessary to accomplish the purposes of the individual sponsored agreement.

If a cost benefits two or more projects/activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects/activities based on the proportional benefit. If proportions cannot be determined due to the interrelationship of the work, then costs may be allocated on any reasonable basis.

Allocation methodologies that may be used as a basis for allocating costs include the following:

- Effort
- Space (square footage)
- Head Count
- FTEs per project
- Number of Experiments
- Usage Records (supply logs, copier logs, hours used logs)
- % of lab-staff time in lab
- % PI time in lab (if he/she is a user of the item)
- Linear footage of Bench Space

Prohibited allocation methodologies (e.g., methodologies that cannot be used as a basis for allocating costs) include the following:

- Placing the full cost on only one award when the cost benefits more than one award
- Splitting the costs evenly across the projects

- Project Budgets (i.e., allocating the bulk of the costs to the project with the larger budget)
- Project Funding
- Available Funds

For any allocation basis used, written support must exist in each case with describes how the allocations have been determined, how all benefiting projects are charged, and why the method is recognized and reasonable.

Indirect Costs

Indirect costs of sponsored agreements are those 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.

Costs that are normally charged as indirect costs of sponsored agreements (via a Facilities & Administrative, or F&A, rate) include, but are not limited to, the following:

- Costs related to the University's physical infrastructure, including building and equipment depreciation (or use allowance), interest associated with external debt issuances to finance facilities-related projects, and operations and maintenance (e.g., utilities, janitorial services).
- Costs of the University's libraries.
- General administrative costs, such as the President's Office, the Human Resources Office, and the Budget Office.
- Sponsored project administrative costs, including the Office for Sponsored Research and Accounting Services for Research and Sponsored Programs.
- Departmental administrative costs such as: salaries, wages, and related fringe benefit costs of departmental personnel who provide administrative support to the sponsored project personnel, including administrative and clerical staff, office equipment, subscriptions and memberships, and local telephone and network communications.
- Materials, supplies, and services of a more general nature, such as office supplies, general/administrative copying services, and office equipment maintenance (e.g., office supplies and other items used in the course of multiple activities and/or not entirely consumed in the course of the project).

Any cost included in the categories above that is incurred for the same purpose, in like circumstances, must be treated either as a direct cost only or as an indirect cost only of the University's sponsored agreements.

Unlike Circumstances

In certain circumstances, costs that are normally charged as indirect costs to sponsored agreements may be charged as direct costs of those agreements. For these costs to be appropriate direct costs, they must be incurred in circumstances that are different or unlike the circumstances in which they are normally incurred. Generally, 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.

Specifically, in order to direct charge a cost that would ordinarily be charged as indirect, all of the following requirements must be met:

- The sponsored agreement has an extraordinary need for the item or service that is beyond the level of services normally provided by departmental 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 sponsored agreement, 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.

In regards to the latter two requirements, if the program itself does not require the submission of a project budget or the cost is identified after the project begins, the cost must be approved by both a designated official of the academic unit and by a grant and contract administrator in the Office for Sponsored Research.

The evaluation of unlike circumstances is made on a case-by-case basis. The evaluation occurs at the proposal preparation stage, or later during the conduct of the project, when the Principal Investigator identifies a need for a project cost that would normally be treated as an indirect cost. A justification must be provided to an Office for Sponsored Research grant and contract administrator describing the need and circumstance as a direct cost, after which the circumstance is evaluated. If it is deemed to be unlike, the cost may be charged directly to the sponsored project. The appropriateness of the treatment is subject to further review if the expenditure is encompassed in the pre-review of expenditures prior to posting (the scope of which is based on expenditure type and amount).

Examples of unlike circumstances include program projects and center grants and similar large, complex programs; projects that involve extensive database accumulation, survey tabulation, and/or graphics or manuscript preparation; and projects that are geographically separated from the rest of the institution such that normal departmental support is not available. A specific example might involve regular postage (e.g., 1st class mail) costs, which are normally treated as indirect costs of sponsored agreements. In the case of a sponsored project (e.g., an epidemiological study) that entails extensive data collection via a mail survey and, therefore, use of postage/mail services substantially beyond what is typical, the regular postage costs associated with the conduct of that survey would be direct charged to the project.

Further Information

Questions or concerns regarding the charging of expenditures to sponsored projects, in the pre-award stage, should be directed to the Office for Sponsored Research (OSR).

Questions or concerns regarding the charging of expenditures to sponsored projects, in the post-award stage, should be directed to the Office of Accounting Services for Research and Sponsored Programs (ASRSP).

Questions or concerns regarding the policies for the charging of expenditures to sponsored projects should be directed to the Office of Cost Studies.