

# **DIRECT CHARGES**

## **INTRODUCTION**

The University's investigators enjoy the support of the public in carrying out scientific research, and the government entrusts investigators with the expenditure of research funds. Scientific research has a stochastic quality that requires considerable flexibility in making expenditures. The government also requires accountability in managing research spending. Recently, OMB revised the regulations that govern the charging of costs to research grants (OMB Circular A-21). These latest revisions affirmed old principles and created new ones. The University's administration and its investigators have a joint responsibility to comply with these regulations. This summary outlines the main features of the federal regulations, but is no substitute for the more complete descriptions that are readily available.<sup>1</sup>

A core principle, that grant<sup>2</sup> funds should be expended only to support the work approved under the grant, affirms the value of peer review. This principle underlies the awarding agency's responsibility to support only work judged meritorious by its review process. Arising from this principle is the A-21 requirement to link a cost to the approved objectives of the grant "with a high degree of accuracy" before it can be direct-charged.

Recognizing the complexity of research, and the fact that a single investigator may have several sources of support, A-21 recognizes three mechanisms for linking a cost to a specific project or group of projects "with a high degree of accuracy." These mechanisms are single grant charging<sup>3</sup>, proportional benefit charging and interrelatedness charging. Single grant charging, the most commonly used mechanism, assumes a direct relationship between a cost and a single benefiting grant. The proportional benefit and interrelatedness mechanisms allow the investigator, under certain circumstances, to allocate a cost across two or more grants.<sup>4</sup>

What will be asked of the Principal Investigator? Principal Investigators (PIs) are primary financial managers as well as principal scientific investigators for each of their respective grants. While departmental administrators and Central Fiscal Unit personnel provide PIs essential management support in this area, it is the investigator who must make the crucial financial decisions related to expenditures.<sup>5</sup>

From practical necessity, the PI and the University collaborate to create an auditable record of the link between the benefiting grant and the direct charge. Careful and clear documentation of actions is an important element in facilitating the annual Circular A-133 audit, program specific audits or Inspector General audits. Proper documentation for charges or cost transfers to a grant should pass the "stand alone" test. An interested party, without additional explanation, must easily understand the paper audit trail for a charge or transfer. To make this record under single grant charging the PI or his/her designee specifies the grant to be charged on a requisition form. The proportional benefit and interrelatedness methods also require the PI or his/her designee to specify the benefiting funds on a form. <sup>6</sup> With this authorization from the PI in hand, the departmental administrator can establish an acceptable audit record through the on-line ordering system. To direct charge a normally facilities and administrative (F&A) cost <sup>7</sup> the PI must also document the unlike circumstances that support the direct-charge. <sup>8</sup>Documentation will be a key

determining factor in establishing "unlike circumstances" for our auditors in support of direct-charging normally F&A costs.

Which responsibilities of the PI may be delegated? The PI understands best how the costs relate to the project, and is therefore responsible for the authenticity and accuracy of costs both in budget proposals and spending awarded funds. The PI designs the budget scope and assures costs listed in the proposal benefit the proposed project. PIs may use the assistance of departmental administrators to develop and retain a record of justification for cost estimates. Once an award is made, the PI is responsible for managing spending, but may ask others for assistance of certain types. For example, a laboratory assistant who uses supplies for a particular project may sign requisitions for supplies as long as the assistant is in a position to know that the linkage of the expense with the funded project is close and clear.

Circular A-21 reaffirms previous limitations on direct charging. The federal government tightened its stance on direct charging of certain costs. In particular, certain administrative costs, such as administrative and clerical salaries, general office supplies, postage, etc., will normally not be directly chargeable. Please use the "Quick Reference Guide" or the University's "Direct-Charging Guidelines" to find whether a charge can be direct. (Although the limitation on direct charging may relieve the grant budget of some costs, the University's F&A cost recovery will probably not be sufficient to match the support that was previously provided by direct charges to the grant.)

Cost Accounting Standards tighten the Federal requirement for consistency. OMB Circular A-21 states, "like charges incurred in like circumstances" must be handled consistently. The University may treat certain categories of costs as direct costs under some circumstances and as F&A costs under other circumstances. The cost categories typically involved are costs such as clerical salaries or postage that, though not normally direct-charged, may be permitted to be direct charged on an exceptional basis. Cost Accounting Standards, effective July 1, 1996, require University level consistency in classifying costs as direct or F&A. The University's schools can no longer independently develop policies to achieve consistency in direct-charging normally F&A costs. The entire University must observe the same rules for determining exceptional treatment (i.e., "unlike circumstances") for direct-charging F&A costs.

Circular A-21's core requirement is specific identification. "Direct costs are those that can be identified specifically with a specific sponsored project -- or that can be assigned to (such activity) relatively easily and with a high degree of accuracy." Methods such as those listed below are unacceptable. These methods do not meet A-21's requirement for linking costs and the work of a grant with a high degree of accuracy.

Rotating direct charges among grants, or "taxing" grants for central services, Making direct charges to a single grant when usage may be partially for other purposes,

Direct-charging to the fund with the largest remaining balance even though there is no linkage or only a partial linkage between the expenditure and its usage for the project,

Direct-charging to the grant with the earliest expiration date even when there is no linkage or only a partial linkage between the expenditure and its usage for the project,

Cost transfer to artificially bring expenditures in line with budgets,

Charging in advance of the expenditure,

Direct-charging the budgeted amount rather than the amount actually spent,

Rebudgeting after an award is made to pay for charges that are normally not permitted as direct charges.

1. The University's "Guidelines for Direct-Charging Costs to Grants", the "Quick Reference Guide", and other documents are being provided to all current Principal Investigators, and are also available in your departmental office or from the Office of Sponsored Research Services (OSRS).
2. In this document, "grant" means any research grant or contract, whether sponsored by federal or non-federal funds.
3. Here "charging" refers to normally-direct non-personnel costs. Personnel costs, when and if directly chargeable, can be allocated to one or several grants through the PI Authorization and PARS systems that are already in place. Provisions of A-21 specifically eliminate, with rare exceptions, direct-charging of administrative salaries and other normally Facilities and Administrative (F&A) costs. (See sections E and F for further discussion.)
4. See Section G of this manual for further discussion.
5. In this role as primary financial manager, investigators should follow the fundamentals presented in Section I of this manual. However, the fundamentals presented at Section I do not supplant the guidance provided in each granting agency's guidelines or the direction provided in applicable federal circulars such as A-21 or A-110.
6. See section G of this manual for further discussion.
7. The May 8, 1996, revision to A-21 replaced the term "indirect cost" with "facilities and administrative (F&A) cost." Within the context of A-21 and this manual the terms "indirect cost" and "F&A" cost are interchangeable.
8. See sections E and F of this manual for further discussion.

## **INTERIM GUIDELINES**

### **A. INTRODUCTION**

**Contents:** These guidelines should be used by Washington University's faculty and staff as the basis for complying with the provisions of the Office of Management and Budget's (OMB's) Circular No. A-21. These guidelines are organized into the following sections:

- A. Introduction
- B. Statement of general principles
- C. General definition of allowable direct costs in grants

- D. Grant budgets, rebudgeting, and cost transfers
- E. Administrative costs as direct costs: salaries and fringe benefits
- F. Administrative costs as direct costs: other costs
- G. Allocation of a direct cost across two or more grants
  - 1. General statement
  - 2. Proportional benefit
  - 3. Using proportional benefit for compensation costs
  - 4. Using proportional benefit for non-compensation costs
  - 5. Interealedtness
- H. Consistency requirement
- I. Principal Investigator financial management
- J. Conclusion

**Ongoing requirements:** Sections C, D and I deal with A-21 requirements that should be followed now and in the future.

**Revised requirements:** Sections E, F, G and H deal with revised requirements that have been added in the latest revision to A-21.

**A-21's applicability to non-federal grants and contracts:** In general, these guidelines apply to non-federal as well as federal grants and contracts. Exceptions are possible in non-federal cases. Contact the Director of the School of Medicine's Office of Grants & Contracts (362-6876) or the Manager of the Office of Sponsored Projects Accounting (935-7089).

**Effective date of revisions to A-21:** A-21 was revised and reissued on May 8, 1996. Its new provisions are effective for fiscal years beginning after May 8, 1996 -- at Washington University, the fiscal year that began on July 1, 1996 (i.e., the University's FY97; the 1996-97 school year). Grant applications that include periods following June 30, 1996 must follow revised A-21's requirements.

In general, all grant expenditures after June 30, 1996 are expected to comply with the new provisions of A-21.

**Responsibility for compliance:** Responsibility for following these guidelines lies primarily with Principal Investigators, department chairs, and business managers, with the general guidance and oversight of the schools. The University's administration is responsible for guidance and training, and for insuring compliance through periodic internal and external audits.

**Definition of "grants:"** In these guidelines, the term "grants" encompasses both grants and contracts.

**Definition of "Facilities and Administrative Costs:"** The May 8, 1996, revision to A-21 replaced the term "indirect cost" with "facilities and administrative (F&A) cost." Within the context of A-21 and this manual the terms "indirect cost" and "F&A" cost are interchangeable.

**Allocation of a direct cost across two or more grants:** Sections C, D, E and F typically refer to charges to a single grant. These references should be understood to refer also to the charging of a cost to two or more grants, under very specific conditions. Section G describes the rules for allocating costs across two or more grants.

**A-21 citations:** The parenthetical notation at the end of each reference to A-21 indicates the location of the reference in A-21. This information is provided for anyone who wants to see the context of the citation. If you would like to review or obtain a copy of A-21, contact the Director of the Medical School Office of Grants and Contracts (362-6876) or the Manager of Sponsored Projects Accounting (935-7089).

**Questions:** If you have questions, contact the Director of the School of Medicine's Office of Grants & Contracts (362-6876) or the Manager of the Office of Sponsored Projects Accounting (935-7089). Department and school business managers may also be helpful sources of information.

## **B. STATEMENT OF GENERAL PRINCIPLES**

Washington University believes that the following principles should guide its compliance with the requirements of A-21. Research at Washington University. The University supports a research process by which new knowledge is acquired for the benefit of society. It recognizes that the scientific method is associated with outcomes that are often difficult to predict and is a creative process which is fundamentally evolutionary in nature. It recognizes the need for fund management principles that support this process. A-21 itself recognizes the distinctive nature of a university's mission when it notes that "Each institution ... should be encouraged to conduct research and educational activities in a manner consonant with its own academic philosophies and institutional objectives." (A2b) The University accepts responsibility for creating a uniform definition of rules of conduct relating to management of government grants and assuring compliance with the rules of such grants. The University does so in recognition of the trust that society places in the scientific enterprise.

The Principal Investigator's responsibilities. Responsibility for scientific and budgetary decision-making in research grants, following the University's guidelines, should be assigned to, and accepted by, the individual designated as the grant's Principal Investigator. These decisions must be recorded in a manner that assures their subsequent accurate implementation and that permits ready auditing by internal or external auditors.

Washington University's responsibilities. The University accepts responsibility for developing a set of operating principles and guidelines which comply with A-21 and which, among other things, clearly delineate those research-related expenses which it identifies as direct costs vs. F&A costs. It takes responsibility for disseminating this information to all University faculty -- whether their research is supported by governmental or nongovernmental sources. It takes responsibility for overseeing the continuing application of these principles and guidelines.

## **C. GENERAL DEFINITION OF ALLOWABLE DIRECT COSTS IN GRANTS**

**Policy.** From A-21: "Direct costs are those 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." (D1) Direct charges to a grant should support the grant's purpose and activity. Such charges cannot be assigned arbitrarily, or for the purpose of simplified budget management that is unrelated to the grant's purpose.

Typically, direct charges to a grant are the costs that are necessary to meet its scientific and technical requirements. (The latest revisions to A-21 say that administrative costs are not normally allowable as direct costs. However, under limited and specified conditions, such costs may be charged directly. Sections E and F below provide more details). If a direct cost benefits two or more grants, A-21 provides standards for their allocation across these grants. Section G below provides more details.

Direct charges to grants are also expected to adhere to the awarding agency's restrictions in the Notice of Award, and to support the agency's programmatic intent.

### **Practice**

The following costs are examples of costs that should be charged directly, as long as they meet the A-21 requirements cited above and are "identifiable to a particular cost objective." (F6b) If a cost cannot be so identified, it cannot be direct-charged.

- A researcher's or technician's salary and fringe benefits are allowable direct costs, when the salary is authorized by the Principal Investigator on a "P.I. Authorization Form" as a direct cost of research, and confirmed by the researcher's or technician's signed Personnel Activity Reporting System (PARS) reports.
- Subject to specific agency guidelines animal care costs, computer costs, consultant costs, laboratory supplies and services and related technical costs, long-distance telephone and fax charges, photocopy costs, publication and reprint costs, shipping (not ordinary postage) costs, specialized shop costs, technical and scientific equipment (and related maintenance agreements), and travel costs, should be treated as direct costs.
- Normally, administrative and clerical costs (as defined at A-21 F6b.) cannot be directly charged to grants. Limited and specified exceptions are described in Sections E and F.

The "particular cost objective" requirement means that costs cannot be direct-charged if they are incurred simply for the benefit of research in general, or the interest of the research in general. They must be necessary for the work of a particular grant or group of grants. For example, long-distance telephone costs, travel costs, and photocopy costs cannot be direct-charged unless they are necessary for the work of the grant or group of grants to which the charge is made.

### **Documentation guidelines:**

1. The cost must be identified with activity in the grant (or grants -- see Section G) to which the cost is charged. For example:
  1. Long-distance telephone and fax costs should be linked to the grant by means of a manual log or grant-specific access code.

2. Purchases charged to a specific grant must identify the grant's fund number on the requisition, purchase order, IDO, invoice statement, etc.
  3. Supplies drawn from a common stock or inventory may be charged directly to a grant if their applicability to the grant is recorded at the time of withdrawal -- by means of a manual log, for example. All such costs must be charged to grants based on anticipated usage at the time of withdrawal. (Circular A-21 prescribes special rules for direct-charging office supplies. See Section F.)
  4. Services drawn from a common source (e.g., use of specialized shop facilities, photocopy costs, etc.) may also be charged directly to a grant under the conditions stipulated in the preceding paragraph.
2. Documentation of linkage of cost to activity should be done by someone who is in a position to know this linkage; e.g., the person who is making the telephone call; the person who is taking supplies from a common stock; etc.
  3. Documentation records of grant activity must be retained for a period of three years following the date in which the grant expires. When a grant is renewed, the three-year period applies separately to the original grant and to each of its renewals; i.e., documentation of activity in the original grant must be retained for three years following its expiration, not for three years following expiration of the last renewal.
  4. Only actual costs may be charged to the grant.
  5. For specific guidance on the appropriate means of documenting the link between grants and non-compensation costs, see the "Quick Reference Guide," available from the Office of Sponsored Projects Accounting if it is not with the other material accompanying these guidelines.

Distribution of direct costs across two or more grants. See Section G for guidelines governing this situation.

Examples of direct-charging practices that should not be followed:

1. rotation of charges among grants by month without establishing that the rotation schedule credibly reflects the relative benefit to each grant
2. assigning charges to the grant with the largest remaining balance, because that grant can afford the charges;
3. charging the budgeted amount (in contrast to charging an amount based on actual usage);
4. assigning charges to a grant in advance of the time the cost is incurred;
5. identifying a cost as something other than what it actually is;
6. charging expenses exclusively to grants, when the expense has supported non-grant activities;
7. assigning charges that are part of the normal administrative support for grants (e.g., proposal preparation, accounting, payroll); see Sections E and F for more details.

These practices are not acceptable because they do not meet A-21's standard for a "high degree of accuracy" in the assignment of costs to grants.

#### **D. GRANT BUDGETS, REBUDGETING, AND COST TRANSFERS (revised 12/09)**

**Budgets.** Budget submissions should be realistic estimates of cost requirements. The estimates should have documented justification in the Principal Investigator's files. The design of the budget should express the intent of the Principal Investigator and should not be designed by an administrator without the Principal Investigator's participation and approval.

The practices used to estimate costs for a proposal must be consistent with the University's policies for classifying costs as direct or facilities and administration.

**Rebudgeting.** Rebudgeting within a grant, after the grant is awarded, is allowed if there is a legitimate need to redirect budgeted costs, provided the rebudgeting conforms to the sponsoring agency's rebudgeting guidelines.

Rebudgeting is not allowed for the purpose of relieving financial pressure on a department's unrestricted budget, or on other grants, or to assign costs that could not otherwise be assigned.

**Cost transfers.** Cost transfers from one grant to another are permitted in order to link a cost more appropriately with the benefit it is providing. For example, if an employee changes his/her ePARS effort percentages from those reported on his/her original ePAR, a payroll cost transfer is the appropriate means of making the corresponding change in salary distribution.

Cost transfers from one grant to another are not permitted in order to solve funding problems or for other reasons of convenience. (C4b)

Cost transfers should be submitted within 90 days of when the error was discovered. In order to meet many sponsor reporting deadlines, any request for a cost transfer should be made within 60 days following the fund expiration date.

**Documentation requirement.** For audit purposes, an adequate explanation for all rebudgeting and cost transfer actions must be included in the documentation entered in the University's Financial Information System (FIS).

#### **E. ADMINISTRATIVE COSTS AS DIRECT COSTS: SALARIES AND FRINGE BENEFITS**

From A-21: "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." (F6b)

This provision of A-21 became effective on July 1, 1994 for actual charges to grants. Exceptions are possible for grants with budget periods that begin before July 1, 1994 and end after this date, and for the non-competitive renewal (continuation) years remaining in that project period. (Exceptions must still comply with existing A-21 requirements for linking the benefit of compensation costs specifically to the grant to which the costs are being charged. The limitations noted in Section C4 apply in all cases.)



All of the following four conditions must be met in order to justify charging administrative and clerical salaries (and related fringe benefits) directly to grants:

1. **Specific association with the grant.** Individuals whose salaries and related fringe benefits are paid from a grant must have responsibilities specifically associated with the work of the grant. They must be able to certify this association on their PARS reports. The "specific association" requirement can be satisfied in one of two ways:
  1. Unusually high levels of administrative work required by an unusually large and complex project such as a program project, cooperative agreement, coordinating center, multi-center grant, or operations office, that requires coordination of financial activities for multiple projects, core units, meetings for setting or advisory committees, pilot project programs, special reporting needs, etc., in addition to regular administrative effort. (At this time, according to guidance received from federal administrators, there is no minimum dollar threshold for a "large and complex project." Such projects are expected to be of the type described in the first sentence of this paragraph. An R01 grant does not qualify under this provision. A group of R01 grants that are closely related scientifically and technically does not qualify under this provision.)
  2. Administrative work that is specifically related to the distinctive scientific and technical requirements of the work of the grant, such as data collection, maintaining subject/patient data, phone surveys, etc.

The salaries and related fringe benefits of individuals whose responsibilities do not meet one of these standards cannot be charged directly to a grant. Normal departmental administrative functions that support research activity, such as proposal preparation, accounting, payroll, purchasing, etc. cannot be charged directly to a grant. Such costs may support grant activity -- they may be essential to its completion and success -- but they are classified by A-21 as facilities and administration costs because they do not meet A-21's specific identification standard. (F6b) This standard is repeated in A-21's section D1: "Direct costs are those costs that can be identified specifically with a particular sponsored project ... or that can be directly assigned (to such activity) relatively easily and with a high degree of accuracy."

Administrative and clerical salary costs that do not meet this standard cannot be charged directly.

**Realistic association.** The percentage of individuals' effort and salary assigned to the grant must be a realistic reflection of their planned effort (in the case of budgeted costs) or real effort (in the case of actual costs).

**Specifically budgeted.** As proposed grant budgets are developed, the percent of effort, salaries and fringe benefits of administrative and clerical positions must be specifically included in the budgets and reasonably explained. Agency approval is also required.

**Major project/activity.** The administrative or clerical salary must support a "major project or activity." We will assume, within normal standards of reasonableness, that the project is "major" if the preceding three conditions are satisfied. In summary, the work associated with administrative salaries charged directly to a grant:

- must be specifically associated with the work of the grant, either as part of an unusually large and complex activity that requires separate administrative support, or as administrative effort that is required to complete the specific and distinctive requirements of a particular grant or group of grants; and
- must be a realistic reflection, through appropriate documentation, of planned or actual effort; and
- must be specifically identified in the grant budget and fully justified, and approved by the granting agency.

In practice, it is anticipated that administrative and clerical salaries will be approved by granting agencies primarily for large projects such as centers, program grants, etc.

#### **F. ADMINISTRATIVE COSTS AS DIRECT COSTS: OTHER COSTS**

**Policy.** From A-21: "Items such as office supplies, postage, local telephone costs and memberships shall normally be treated as F&A costs." (F6b) On May 8, 1996, OMB incorporated four Cost Accounting Standards (CAS) into Circular A-21. These standards defined more stringent requirements for direct-charging costs that are normally facilities and administrative. However, A-21 does not absolutely bar such costs from being charged directly to a grant. To direct-charge, the new rules do require that a normally F&A cost must be specifically identified with the grant and be incurred under unlike or special circumstances. For example, postage for correspondence between collaborators is the usual or normal circumstance for that cost and should not be charged directly to a grant. Postage for mailing survey instruments to subjects constitutes unlike circumstances and should be charged directly to the benefiting grant. CAS requires the University as a whole be consistent on its treatment of direct and F&A costs. This interpretation differs from previous University policy that required consistency at the department level only.

Administrative costs of this kind (e.g., office supplies, postage, local telephone, memberships) may be charged directly to grants but only if the cost supports activity that is directly related to the work of the grant and the link between the cost and activity is close and clear. The circumstances surrounding the cost must also be unlike the normal circumstances for incurring that cost. (Assignment of such costs through a general departmental "tax" would not typically be close or clear enough to justify them as direct costs.)

The "Quick Reference Guide" provides specific and detailed guidance on appropriate means of establishing this link and identifying unlike circumstances. These methods may not cover all occasions. Written suggestions for other methods, or questions about the appropriateness of the current methods, are welcome. Suggestions and questions should be directed to the Director of the School of Medicine's Gifts, Grants and Contracts Office (362-6876) or the Manager of Sponsored Projects Accounting (935-7089).

#### **Practice:**

1. **Office supply and research office supply costs.** (e.g., pencils and pens, staplers, paper clips, tablets, etc.). These are normally F&A costs. (F6b) They cannot be charged to a grant unless their applicability to the specific and distinctive requirements (i.e., unlike

circumstances) of the grant can be clearly established. A log or trailing document should be used to document the specific identification and unlike circumstances. For example, specialized laboratory notebooks used specifically to document the results and conclusions of scientific activity for a particular grant. Investigators cannot use such laboratory notebooks for purposes other than documentation of experiments (e.g., class notes, general "to do" lists, etc.) for a particular grant or specified group of grants.

2. **Postage costs.** These are normally F&A costs. (F6b) They cannot be charged to a grant unless their applicability to the specific and distinctive requirements (i.e., unlike circumstances) of the grant can be clearly established. A postage meter or log that can identify specific usage with a specific grant should be used to document specific identification. In situations where a postage meter is used to document specific identification the PI should also prepare a trailing document in FIS or notation on the source document to support the unlike circumstances. For example, postage incurred to mail a survey instrument to collect data for a specific grant.
3. **Local telephone, fax, data line costs.** These are normally F&A costs. (F6b) They cannot be charged to a grant unless their applicability to the specific and distinctive requirements (i.e., unlike circumstances) of the grant can be clearly established. A trailing document in FIS or notation on the source document should be used to document the specific identification and unlike circumstances. For example, telephone lines specifically required by the terms of a grant.
4. **Memberships, professional dues, and assessments.** These are normally F&A costs. (F6b) They cannot be charged to a grant unless their applicability to the specific and distinctive requirements (i.e., unlike circumstances) of the grant can be clearly established. A trailing document in FIS or notation on the source document should be used to document the specific identification and unlike circumstances. For example, membership in a society that is a prerequisite for a certification specifically required by the terms of a grant.

As noted above, these types of costs must normally be treated as F&A costs. The above examples illustrate appropriate documentation methods when unlike circumstances support an exception to the normal rule.

#### **G. ALLOCATION OF A DIRECT COST ACROSS TWO OR MORE GRANTS**

**General statement** "Direct costs are those costs that can be identified specifically with a particular sponsored project ... or that can be directly assigned to (such activity) relatively easily and with a high degree of accuracy." (D1) Whenever a cost can be identified with and charged to a single grant without administrative difficulty, it should be so charged. The allocation guidelines below for charging a cost to a group of two or more grants should be used only when the cost directly benefits the group.

**Proportional benefit** From A-21: "If a cost benefits two or more (grants) in proportions that can be determined without undue effort or (administrative expense), the cost should be allocated to the (grants) based on the proportional benefit." (C4d(3)) When the proportional benefit rule is used, the required close linkage of cost with grant activity, as described in Sections C, D, E and

F, continues to apply. The process and documentation guidelines described in those sections continue to apply. Under the provisions of this section, the difference is that those requirements apply to a specified group of grants, not to a single grant.

Specifically:

The cost in question should be specifically identifiable with the group of grants relatively easily, and with a high degree of accuracy.

Credible documentation of this identification must be maintained by the department.

Administrative costs cannot normally be directly charged to such groups of grants unless the costs clearly meet the criteria specified in Section E or F.

The proportional benefit mechanism is a special provision of the direct-charging rule. Thus, to be direct-charged using proportional benefit, a normally F&A cost must pass both the specific identification and unlike circumstances tests for all grants to which the cost is being charged.

**Using proportional benefit for compensation costs** (salaries and related fringe benefits) that directly benefit two or more grants

- Washington University is already using the proportional benefit rule to distribute these costs. Therefore, no change in policy or procedure is required, as long as both are followed correctly.
- The proportional benefit rule is applied when the Principal Investigator authorizes the distribution of a salary across two or more grants (the fringe benefits will automatically follow). Under current University policy, this authorization should reflect the Investigator's best judgment of the proportional benefit of the salary to each of the affected grants.
- Signed PARS reports verify that the distribution of actual salary reflects the proportional distribution of the benefit of the salary. A-21 requires "...confirmation of activity allocable to each sponsored agreement ..." (J8b(2)(c)) To implement this requirement, Washington University uses an option provided by A-21 called "After-the-fact Activity Records." A-21: "Activity reports ... will reflect an after-the-fact reporting of the percentage distribution of activity of employees ... Reports will reasonably reflect the activities for which employees are compensated by the institution... The system will reflect activity applicable to each sponsored agreement..." (J8c(2)) Washington University implements this provision of A-21 through its Personnel Activity Reporting System (PARS).
- Under these guidelines, when salaries and related fringe benefits are allocated across two or more grants, the signer of the PARS report -- either the employee or, in the employee's absence, the employee's supervisor who has first-hand knowledge of the employee's effort -- is certifying that the effort percentages are a reasonable proportional distribution of the employee's effort.

**Using proportional benefit for non-compensation costs**

- Conditions under which the proportional benefit rule can be used for non-compensation costs:
  - the cost in question qualifies as a direct cost under Sections C, D, E or F; and
  - the cost pays for something that specifically benefits two or more grants; and
  - without undue effort or administrative expense, a proportional distribution of the cost can be devised. For the grants in question, this distribution must reflect, roughly but plausibly, the proportional distribution of the benefits that the cost is paying for. The Principal Investigator must approve the use of proportional benefit and the method of its use.
- Examples of acceptable methods:
  - distribution of allowable direct costs used by grants A, B, and C, in proportions that reflect the Principal Investigator's best judgment of the proportions that will roughly but plausibly reflect the benefit of the cost to each of the grants;
  - distribution of allowable direct costs used by grants A, B and C, in proportions that reflect each grant's award percentage of the total awards in all three grants.
  - Distribution of allowable direct costs by proportional benefit is an automated feature of FIS.

**Interrelatedness** From A-21: "If a cost benefits two or more (grants) in proportions that cannot be determined because of the interrelationship of the work involved, then ... the costs may be allocated or transferred to benefited projects on any reasonable basis..." (C4d(3))

These guidelines assume that the interrelatedness rule will be used infrequently, because in most cases the proportional benefit rule will provide an administratively convenient distribution that fairly reflects the proportional benefit of the cost to each grant in the group.

Interrelatedness can be used as a basis for charging costs under the following conditions:

- The cost in question can be identified with a specified group of grants relatively easily and with a high degree of accuracy.
- In the judgment of the Principal Investigator, the technical or scientific interrelatedness of the grants makes it impossible, without undue administrative effort, to devise a proportional benefit distribution that distributes the cost across the grants in roughly the way the benefit of the cost is distributed.
- The Principal Investigator completes an Interrelatedness Authorization Form (available in department business offices) in order to document, for audit purposes, the technical or scientific interrelatedness of the grants.
- The cost can be distributed across the grants on any reasonable basis. The charges should be noted in the appropriate charging document (purchase order, invoice statement, etc.) as charges based on an assumption of interrelatedness.

## H. CONSISTENCY REQUIREMENT

**Policy.** A-21 specifically defines some costs as normally direct: "...salaries of technical staff, laboratory supplies (e.g., chemicals), telephone toll charges, animals, animal care costs, computer costs, travel costs, and specialized shop costs shall be treated as direct cost wherever identifiable to a particular cost objective." (F6b) A-21 also specifically defines some costs as

normally F&A costs: "The salaries of administrative and clerical staff should normally be treated as F&A costs. Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs." (F6b) While normally treated as F&A costs these costs may, under certain specified circumstances, be charged directly.

Provisions of A-21 mandate consistency in making the decision to treat a particular type of cost as direct or F&A: "Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all activities of the institution." (D1)

This requirement has two purposes. One is to help insure that costs are assigned correctly by requiring that they be assigned consistently. A second purpose is to avoid inappropriate charges to the federal government for a grant when it is charged directly for specified costs - then charged again, through payments made to the University for reimbursement of F&A costs, for the same type of costs incurred for the same purpose and in similar circumstances elsewhere in the University.

The Cost Accounting Standards, recently incorporated into A-21, mandate that consistency be maintained on an institution-wide basis. While mandating consistency, A-21 rarely defines explicitly the "purposes" and "circumstances" that determine when a given type of expense should be treated as a direct or F&A cost. Thus, the tests a particular transaction must pass to be direct-charged to a federally sponsored agreement may vary by type of cost within an institution. To charge a normally F&A cost directly to a grant, the cost must be specifically identified with the work of that grant and pass the unlike circumstances test. To charge a normally direct cost directly to a grant, the cost must only be specifically identified with the work of that grant. These rules must be consistently applied across the University (i.e., all similar circumstances must be treated consistently by all subdivisions of the University). Divergence in the treatment of costs between departments, even when consistent within a department, is no longer allowed.

## **I. PRINCIPAL INVESTIGATOR FINANCIAL MANAGEMENT (revised 12/09)**

Principal Investigators (PIs) are the primary financial managers as well as the principal scientific investigators for each of their respective grants. While departmental administrators and Central Fiscal Unit personnel provide PIs essential management support in this area, it is the investigator who must make the crucial financial decisions related to expenditures. In this role as primary financial manager, investigators should follow the fundamentals presented below. This section is an overview and does not supplant the guidance provided in each granting agency's guidelines or the direction provided in applicable federal circulars such as A-21 or A-110.

**Expenditure Monitoring.** A Principal Investigator or designee should authorize all charges made to grants. In addition to this authorization, PIs should review each grant's overall financial status no less frequently than quarterly. A basic review of financial information should include:

1. Verification that the PI or designee properly authorized all charges, provided applicable signatures/approvals (electronic or otherwise), and submitted the appropriate documentation (e.g., consultant forms, equipment screening certificates).

2. All such authorized charges benefit the receiving grant.
3. Resources spent should correspond to scientific progress toward the grant's objectives.
4. Verification that the FIS system properly recorded new awards, prior period carry over and encumbrances.
5. Cost transfers are timely (i.e., within 90 days of when the error was discovered or 60 days of the end of the grant), appropriately justified and well documented.
6. The grant received services, materials or equipment prior to its expiration date.

The PI can access financial data associated with his/her grants via the Faculty Financial Reporting Tool which is available within the ResearchGateway. Additionally, the PI can coordinate a review of financial data/reports from the Administrative Information System (AISystem), the Reporting, Analysis and Planning System (RAPS) or WebFocus with the appropriate department administrative staff. Noted below are the related URLs for these systems.

FFR via Research Gateway: <https://research.wustl.edu/Pages/ResearchGateway.aspx>,

AIS: <https://aisinfo.wustl.edu/ps/ps/?cmd=login>,

RAPS: <http://raps.wustl.edu/RAPS%20Apps.htm>

WebFOCUS: <https://wufocus.wustl.edu/approot/focusmenu/logon.html>,

In addition, PIs should continue to review and sign salary authorization forms and PAR documents.

**Documentation.** Careful and clear documentation of actions is proof of the investigator's conscientious exercise of the fiduciary responsibility inherent in the expenditure of public funds (note: Electronic forms, authorizations and approval maintained/retained within the University systems are deemed sufficient documentation). Moreover, such documentation is an important element in facilitating the annual Circular A-133 audit, program specific audits or Inspector General audits. Proper documentation for charges or cost transfers to a grant should pass the "stand alone" test. An interested party, without additional explanation, must easily understand the paper audit trail for a charge or transfer. For example, the documentation for a payroll cost transfer should explain the reasons for the transfer. An explanation that merely states "to correct an error" is not sufficient. Documentation will also be a key determining factor in establishing "unlike circumstances" in support of direct-charging normally indirect costs.

Documents available within AISystem and WUSTL Marketplace containing electronic approvals will be retained for departmental reference accordance with University's record retention policy.

**Grant Close-out.** Department administrators and PIs should submit all valid expenses to FIS, clear all encumbrances and overdrafts within 60 days of the grant expiration date

**J. CONCLUSION (revised 12/09)**

These guidelines should not be understood as a comprehensive and legal restatement of all of A-21's requirements. They represent the University's best judgment about the appropriate application of A-21's requirements to the charging of costs to research grants at Washington University, at this time, and under present and reasonably foreseeable circumstances. Within A-21's framework, these guidelines are meant to provide flexibility and support the University's research activities. They deal with the present and the future, and do not imply any judgment, pro or con, about charging practices prior to their issuance.

All members of the University's research community are expected to follow these guidelines. Questions about them, including questions about their applicability to A-21, should be directed to Sponsored Projects Accounting (935-7089) or the Offices of Sponsored Research Services (Danforth Campus - 935-5825 / Medical School - 362-6876.)

Future revisions to these guidelines may be necessary based on:

- experience with these guidelines;
- interpretations and mandates by federal agencies, if these are issued;
- the experience of other institutions;
- the level of compliance with these present guidelines.

No matter how flexible, these guidelines will require substantial attention and effort in their continued application. The University's administration, and the administrations of each of the schools, realize that day-to-day responsibility for compliance rests with Principal Investigators, with essential support from department research administrators. Their understanding and care are critical, and appreciated.

Provisions of A-21 specifically eliminate, with rare exceptions, direct-charging administrative and clerical salaries and other normally F&A costs. (See Sections E and F of this document for further guidance.)

PIs and designees signify approval by signing a requisition form, stockroom log, invoice, other initiating document or using an auditron code. Supporting documents must be maintained by the department in accordance with University record retention policy.