

Vanderbilt University

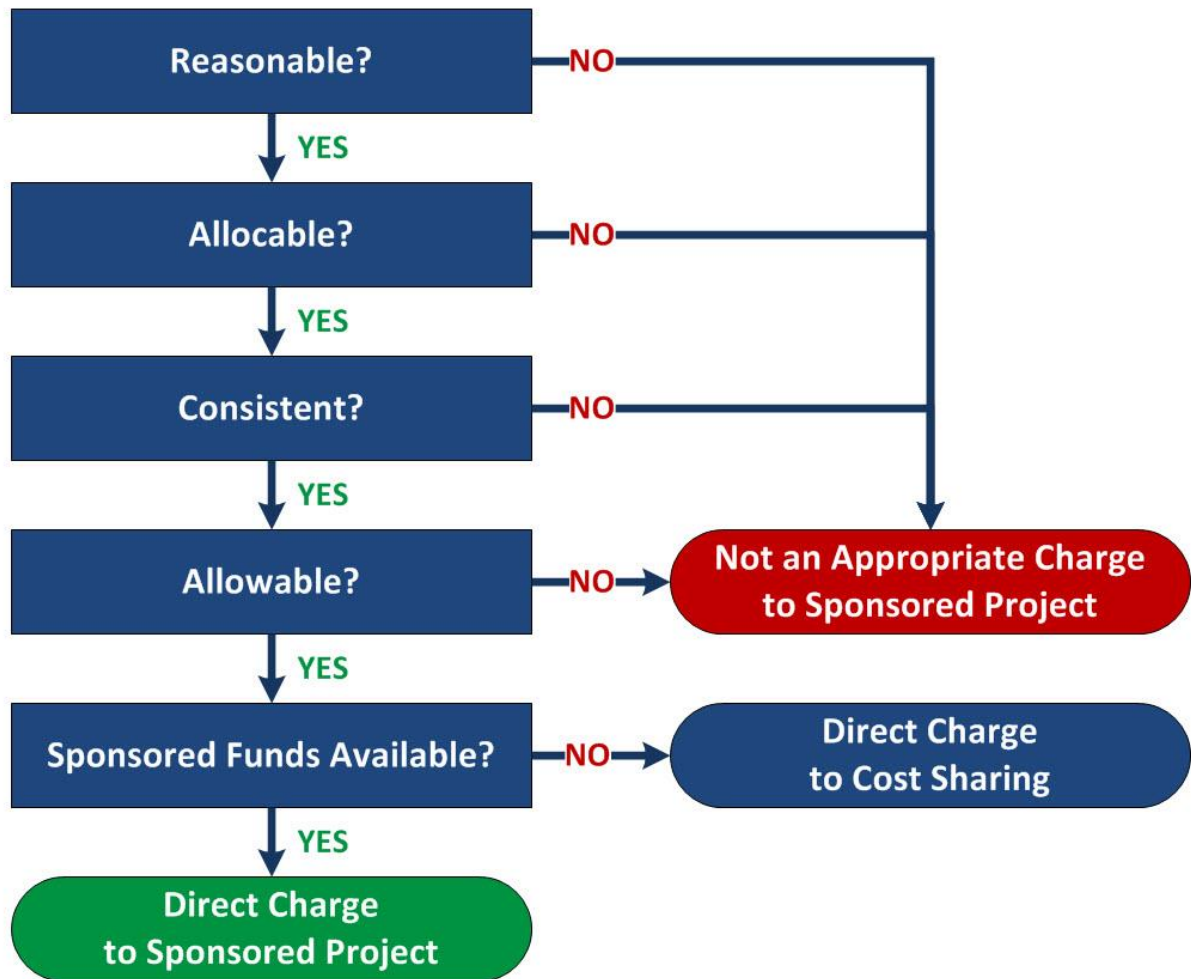
Direct Cost

**Guidelines for Budgeting and
Charging Direct Costs on Sponsored Projects**

Table of Contents

- Flowchart Illustration
- Introduction
- Roles and Responsibilities
- Direct Costs: Definition and List of Criteria
- Direct Costs: **Reasonableness**
- Direct Costs: **Allocability**
- Direct Costs: **Consistency**
 - Government Regulation
 - Costs that are **NOT** Normally Considered as Direct Costs at Vanderbilt University
 - Costs that **ARE** Normally Considered as Direct Costs at Vanderbilt University
 - Costs Requiring Additional Justification
- Direct Costs: **Allowability**
- Availability of Sponsor Funds
- Expense Category Coding
- Appendix A: Examples of Inappropriate Practices
- Appendix B: Central Offices

Is the cost...



Introduction

In accepting government sponsored projects (grants, contracts, and other types of agreements) Vanderbilt University agrees to abide by government regulations regarding the use of those funds. Office of Management and Budget 2 CFR PART 200—UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS sets forth general criteria for determining the allowability of direct costs on government sponsored projects. Many government agencies publish additional cost guidelines specific to those agencies, and familiarity with such regulations is also necessary.

Although generally not as stringent as government requirements, non-governmental agencies may also have cost guidelines with which Vanderbilt faculty (principal investigators), departmental business officers, and/or grant administrators should be familiar.

This Guide summarizes pertinent overall government regulations and Vanderbilt practices used to determine whether or not a particular cost item would be considered an allowable direct cost for budgeting and/or charging on a government sponsored project. Government auditors may use the same guidelines when conducting audits of government sponsored projects awarded to Vanderbilt.

Appendix B contains a listing of central offices to contact for assistance in interpreting various circumstances. In addition, business officers / administrators within each department are a valuable resource in applying the principles to particular circumstances.

Roles and Responsibilities

PRINCIPAL INVESTIGATOR

Determines financial charges that are allocable to the sponsored project.

Attests to the allowability and reasonableness of all expenditures when initiated.

Initiates hiring/assignment of personnel working on the sponsored project.

Responsible for the completion, accuracy and timeliness of all technical reports.

Initiates and approves subcontract agreements and payments.

Participates with the Departmental Financial Administrative Officer in the process of documenting cost sharing/matching costs.

Initiates requests for re-budgeting of costs on the project.

Initiates and proposes resolution of any cost overrun occurring on the project.

Reviews and approves interim financial reports prepared by the post-award accounting office.

Identifies and allocates any program income (such as revenue from sales and services of goods developed in conjunction with a sponsored project).

Ensures compliance with all applicable financial regulations by project personnel and reports instances of non-compliance to the University Compliance Officer.

DEPARTMENTAL FINANCIAL ADMINISTRATIVE OFFICER

Reviews financial transactions on sponsored programs to ensure that the transaction occurs within the project period.

- The cost of the transaction is reasonable.
- The transaction represents a reasonable allocation of the cost.
- Funds are available in the sponsored program to support the transaction.
- The transaction is treated consistently with regard to direct/indirect cost purposes if the transaction occurs on a federal project.

Prepares and/or approves financial, human resources and other documents for sponsored projects in the following areas:

- Cost sharing/matching.
- Provides or maintains databases or files to support sponsored project activities.
- Prepares documents and provides information for appointment of individuals to sponsored project(s).

Processes financial transactions and reviews and analyzes Financial Reports for sponsored project(s)

- Assigns correct expense category codes, provides information and processes purchase documents.
- Prepares and initiates processing of cost sharing/matching documents.
- Prepares documents and provides information for re-budgeting.
- Prepares requests for cost transfers and forwards to the post-award accounting office for review, preparation and processing.

Provides information and prepares documents to resolve project cost overruns

- Processes documents to record program income.
- Prepares documents and provides information for compliance with the effort reporting policy.
- Provides information for interim and final financial reports.
- Provides information for closing documents.

Assesses risk associated with financial transactions on sponsored projects and as needed, seeks the advice and approval of higher authority, such as the Dean's Office or the post-award accounting office.

Reports instances of financial noncompliance with applicable regulations to the University Compliance Officer.

DEPARTMENT CHAIR OR CENTER DIRECTOR

Maintains local oversight for the allowability and reasonableness of all project expenditures.

Oversees all re-budgeting activities on sponsored projects.

Provides oversight on all aspects of program income.

Provides oversight on the implementation of University and federal financial policies and regulations at the unit level.

Ensures financial compliance with applicable regulations for sponsored projects within department/center and reports instances of noncompliance to the University Compliance Officer.

DEAN'S OFFICE (OR DESIGNEE)

Approves source of cost sharing/matching funds.

Provides local oversight for federal costing regulations issues such as correct identification of costs as direct or indirect costs.

Identifies funds to cover project cost overruns.

Provides guidance in sponsored project matters that cannot be resolved at the department level.

Promotes University Compliance Program regarding research grants management.

Investigates instances of financial noncompliance and reports discovered instances of noncompliance to the University Compliance Officer.

COMPLIANCE OFFICER

Informs the University community about the Standards of Conduct and ethical obligations under the Compliance Program.

Monitors compliance activities, including policies and procedures, and training and education programs.

Serves as a resource to the University on matters of compliance.

Maintains a help line for compliance matters.

EXECUTIVE ADMINISTRATION

Promotes University Compliance Program.

Oversees policy formulation in the following areas:

- Matters relating to direct and indirect charging on sponsored projects.
- Effort reporting on sponsored projects.
- Cost sharing.
- Re-budgeting on sponsored projects.
- Recording and disposing of program income.
- Cost transfers.
- Record retention.
- Works with others in instances of financial noncompliance to resolve.

INTERNAL AUDIT

Provide information, analyses, and counsel to assist management in ethically, effectively and efficiently fulfilling their management responsibilities.

Examines, evaluates and reports on the adequacy and reliability of existing internal controls.

Recommends, as necessary, actions to improve; automated and manual systems of processing revenues and expenses, financial reporting, compliance with laws, regulations and internally developed policies and procedures and the safeguarding of assets.

PRE-AWARD OFFICE

Shares responsibility with pre-award offices for formulation, implementation, and interpretation of policies regarding allowable costs and for training researchers and staff on proposing and expending allowable costs.

POST-AWARD ACCOUNTING OFFICE

Prepares invoices and letter of credit draws to sponsors on a timely basis.

Prepares quarterly financial reports for federal agencies as required.

Prepares interim and final financial reports in coordination with departments.

Pre-audits certain financial transactions to ensure compliance with applicable regulations.

Performs risk analysis for certain categories of expenditures to ensure compliance with applicable regulations.

Identifies reportability of program income.

Monitors levels of program income.

Provides institutional oversight on cost transfers.

Processes payments of approved subcontractor invoices.

Approves or recommends approval of, carry forward of unexpended funds.

Resolves payment problems with sponsors, in conjunction with the the appropriate pre-award office.

Prepares, negotiates and administers the institution's indirect cost and fringe benefit rates in conjunction with the post-award accounting office and other university departments.

Assists departments in the proper development and administration of service center rates.

Provides training as it pertains to the financial administration of sponsored projects to different constituencies.

Provides oversight regarding financial compliance.

Works with the University Compliance Officer and others to resolve instances of discovered financial noncompliance

Direct Costs: Definition and List of Criteria

Government Definition of Direct Costs:

Direct costs (see NOTE below) 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. [Office of Management and Budget Uniform Guidance 2 CFR 200.413]

Summary of Criteria for Determining Allowability of Direct Costs:

For purposes of determining whether it would be appropriate to budget or charge a certain direct cost on a government sponsored project, principal investigators, departmental business officers and grant administrators should be familiar with the criteria used to define "allowable direct costs". They are:

- A. The cost must be **reasonable**, i.e., the cost is generally recognized as necessary for the performance of the project and is one that a prudent person would consider reasonable given the same set of circumstances;
- B. It must be **allocable** to the sponsored project, i.e., the cost is incurred for the benefit of only one project or the item can be easily assigned to multiple benefiting projects. A specific project may only be charged that portion of the cost which represents the direct benefit to that project;
- C. The cost must be **treated consistently** with other similar costs incurred in like circumstances in accordance with generally accepted accounting principles; and
- D. The cost must **conform to any limitations** or exclusions stated in generally accepted accounting principles or in the sponsored agreement, i.e., the cost must be "**allowable**" and not specifically designated as unallowable by regulation or grant/contract specific award conditions.
- E. If **sponsor funds are available**, appropriate direct cost items should be charged to sponsor funds. Guidance for using appropriate Vanderbilt expense category codes is included in the section of this Guide titled "Expense Category Coding". If sponsor funds are **not** available and it is determined that the scope of work of the project cannot be modified to eliminate the need for the item, then the direct cost item should be charged to an appropriate cost-share expense category [Note: internal approvals for cost sharing may be required] and reflected as a cost of the project, but one borne by Vanderbilt.

NOTE:

Direct Costs should be net of applicable credits. In accordance with Office of Management and Budget Uniform Guidance 2 CFR 200.406, the term "applicable credits" refers to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs. "Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate."

Direct Costs: Reasonableness

A. Reasonableness

Government Regulation.....

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.
- (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

[Office of Management and Budget Uniform Guidance 2 CFR 200.404]

Direct Costs: Allocability

B. Allocability

Government Regulation.....

Allocability: General Rule

- (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
 - (1) Is incurred specifically for the Federal award;
 - (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
 - (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.
- (b) All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
- (c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.
- (d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also §§200.310 Insurance coverage through 200.316 Property trust relationship and 200.439 Equipment and other capital expenditures.
- (e) If the contract is subject to CAS, costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.

[Office of Management and Budget Uniform Guidance 2 CFR 200.405]

Direct Costs: Consistency

C. Consistency

Government Regulation.....

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect 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 (see "Vanderbilt University's Treatment of Direct Costs" below).

Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. Typical costs charged directly to a sponsored agreement are the compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs to the extent they are consistently treated, in like circumstances, by the institution as direct rather than indirect costs; the costs of materials consumed or expended in the performance of the work; and other items of expense incurred for the sponsored agreement, including extraordinary utility consumption. The cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be included as direct costs of sponsored agreements, provided such items are consistently treated, in like circumstances, by the institution as direct rather than indirect costs (see "Vanderbilt University's Treatment of Direct Costs" below), and are charged under a recognized method of computing actual costs, and conform to generally accepted cost accounting practices consistently followed by the institution.

The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:

- 1) Administrative or clerical services are integral to a project or activity;
- 2) Individuals involved can be specifically identified with the project or activity;
- 3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- 4) The costs are not also recovered as indirect costs.

[Office of Management and Budget Uniform Guidance 2 CFR 200.413]

Vanderbilt University's Treatment of Direct Costs.....

The government requires that the major research colleges and universities disclose in writing their general practices regarding classification of costs as direct costs as practices may vary between universities (e.g., University X may routinely budget and charge as direct costs long distance telephone expenses, while University Y does not).

At Vanderbilt University, there are certain "like circumstances" where costs are consistently treated as direct costs of sponsored projects. Conversely, there are certain "like circumstances" where costs are not considered direct costs, and should NOT be budgeted or charged as direct costs on sponsored projects. However, in all cases, the following standard applies:

Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. [Office of Management and Budget Uniform Guidance 2 CFR 200.413]

Examples of Costs that are NOT Normally Considered as Direct Costs at Vanderbilt University

At Vanderbilt University, the following costs are **NOT** normally budgeted and charged as direct costs of sponsored projects:

Salaries of individuals engaged in routine departmental or administrative work that benefits all activities of the department (instruction, research, training, public service, etc.), i.e., **there is no direct relationship to a specific sponsored project's scope of work.**

Supplies and materials for routine departmental or administrative activities of the department that benefit all activities of the department (instruction, research, training, public service, etc.), i.e., **there is no direct relationship to a specific sponsored project's scope of work.**

Other costs such as travel, repairs, fees and services, local and long distance telephone expenses, copying and postage that are for routine departmental or administrative use, **and do not have a direct relationship to a specific sponsored project's scope of work.**

General office items with multi-functional use such as computers, fax machines, answering machines, staplers, hole punches, filing cabinets, chairs, desks, calculators, waste baskets, etc.), **that do not have a direct relationship to a specific sponsored project's scope of work.**

Examples of Costs that ARE Normally Considered as Direct Costs at Vanderbilt University

At Vanderbilt University, the following costs **ARE** normally budgeted and charged as direct costs. The common element is that the cost is necessary to perform the project's stated scope of work.

Salaries and fringe benefits of faculty, technicians, post docs, graduate research assistants and other staff **engaged in performing sponsored project's scope of work.**

Supplies and materials **necessary for performing sponsored project's scope of work.**

Other costs such as travel, subcontracts, repairs, maintenance, fees and services, telephone expenses, copying, postage, etc., **necessary for performing sponsored project's scope of work.**

Capital equipment that is approved by the sponsor (or internally approved if allowed by the sponsor).

Service/maintenance agreements on capital equipment approved by the sponsor (or internally approved if allowed by the sponsor).

Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. [Office of Management and Budget Uniform Guidance 2 CFR 200.413]

EXAMPLES

Clerical Salaries

Clerical salaries CAN be budgeted and charged as direct costs under certain circumstances. Simply knowing the "nature of the good or service", e.g., clerical salary, is not sufficient to determine whether the cost is an appropriate direct charge to a sponsored project. In order to make the determination, one must know the cost's relationship to the sponsored work. For example:

Clerical salaries that are paid to individuals entering data from a survey that is part of the sponsored project's scope of work may be appropriately charged as direct costs.

Clerical salaries that are paid to individuals for routine administrative work such as processing purchase requisitions, reviewing monthly ledgers, processing new proposals, etc., and that benefit all aspects of a department, including research, are normally **NOT** appropriate direct cost charges.

Other Examples

Following are other examples of costs and the circumstances under which they may be incurred. For each cost/circumstance, it is indicated whether the cost would be budgeted and charged as a direct cost under Vanderbilt direct charge guidelines.

<u>Salaries</u> expense incurred under the following circumstances...	Direct Cost?	
	YES	NO
1. Processing purchase orders on a research grant (such as an "R01")		✓
2. Processing purchase orders on a center/program project grant (admin effort documented in proposal as part of scope of work)	✓	
3. Proposal development (writing, editing, copying and mailing proposals)		✓
4. Principal Investigator effort to write annual project report (may include next budget year's proposal)	✓	
5. Data entry (data collected under project scope of work)	✓	
6. Data entry – financial transactions for a research grant are entered into financial shadow system (Note: may be considered a direct cost if part of the administrative budget on a program/project or center grant AND approved by the sponsor.)		✓

<u>Supplies and/or services</u> expense incurred under the following circumstances...	Direct Cost?	
	YES	NO
1. Copying costs for copying purchase orders, monthly ledgers		✓
2. Copying costs for annual progress reports	✓	
3. Mailing costs for shipments of research materials and deliverables if necessary to perform the project's scope of work	✓	
4. Copying costs for copying forms to mail out to survey recipients (survey is part of project scope of work)	✓	
5. Manila folders for general office use		✓
6. Manila folders for filing survey responses, lab results	✓	

Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. [Office of Management and Budget Uniform Guidance 2 CFR 200.413]

Justification required in proposals that budget certain costs as direct costs:

For the following cost items (and for any others that a layperson may consider routine and administrative in nature), specific written justification as to the relationship between the cost and the proposed project's scope of work should be completed and submitted to the appropriate pre-award grants or contracts office as a part of the proposal to the sponsoring agency. The documentation should explain the direct benefit relationship between these cost items and the proposed scope of work.

- Clerical and administrative salaries
- Office Supplies
- Postage
- Local telephone charges
- Memberships
- Subscriptions
- Answering machine/beepers
- Items generally thought of as having multi-functional use (staplers, hole punches, filing cabinets, chairs, desks, computers, printers, fax machines, calculators, waste baskets, etc.)

Direct Costs: Allowability

D. Allowability

Government Regulation.....

The following costs have been specifically identified by the Government as unallowable on Government grants and contracts in Office of Management and Budget Uniform Guidance 2 CFR 200.

However, individual agencies and programs have authority to approve certain of these costs. For example, it may be appropriate to budget "alcoholic beverages" as a direct cost of a sponsored project to study effects of alcohol on reflex movement. To budget or charge such a cost, one must fully disclose such items in the budget narrative or have written approval by the sponsoring agency grant/contract management officer (if approval was not obtained in the original proposal and award document).

The list below is not all inclusive. Individual agency and program requirements may list other "unallowable" costs.

1. Advertising for general promotion of the University, including printed materials, promotional items, memorabilia, gifts, and souvenirs;
2. Advertising for recruitment purposes that includes color or is excessive in size;
3. Alcoholic beverages;
4. Alumni or fund-raising activities;
5. Antiques;
6. Bad debt write-offs;
7. Charitable contributions;
8. Commencement expenses;
9. Cost Overruns: Any costs allocable to a particular sponsored agreement 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;
10. Costs on Industry, Foreign Government or Other Non-Government Grants / Contracts: Any costs allocable to activities sponsored by industry, foreign governments or other sponsors may not be shifted to federally-sponsored agreements;
11. Decorative objects for private offices;
12. Entertainment;
13. Fine/original art;
14. Fines and penalties;
15. First-class/business-class air travel differentials;
16. Flowers;
17. Gifts, prizes, and awards;
18. Goods or services for personal use;
19. Lobbying;
20. Memberships in airline travel clubs;
21. Memberships in civic, social, community organizations or country clubs;

22. Faculty and exempt staff salary in excess of base rates paid by the institution. Other limitations may apply, such as the Public Health Service salary cap. **[See below full text of government regulation concerning allowable rates of pay for faculty.]**
23. Selling or marketing products or services of the University; and
24. Social events.

Allowable Rates of Pay for Faculty, Office of Management and Budget Uniform Guidance 2 CFR 200.430:

(h) Institutions of higher education (IHEs).

(1) Certain conditions require special consideration and possible limitations in determining allowable personnel compensation costs under Federal awards. Among such conditions are the following:

(i) Allowable activities. Charges to Federal awards may include reasonable amounts for activities contributing and directly related to work under an agreement, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, developing and maintaining protocols (human, animals, etc.), managing substances/chemicals, managing and securing project-specific data, coordinating research subjects, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences.

(ii) Incidental activities. Incidental activities for which supplemental compensation is allowable under written institutional policy (at a rate not to exceed institutional base salary) need not be included in the records described in paragraph (i) of this section to directly charge payments of incidental activities, such activities must either be specifically provided for in the Federal award budget or receive prior written approval by the Federal awarding agency.

(2) Salary basis. Charges for work performed on Federal awards by faculty members during the academic year are allowable at the IBS rate. Except as noted in paragraph (h)(1)(ii) of this section, in no event will charges to Federal awards, irrespective of the basis of computation, exceed the proportionate share of the IBS for that period. This principle applies to all members of faculty at an institution. IBS is defined as the annual compensation paid by an IHE for an individual's appointment, whether that individual's time is spent on research, instruction, administration, or other activities. IBS excludes any income that an individual earns outside of duties performed for the IHE. Unless there is prior approval by the Federal awarding agency, charges of a faculty member's salary to a Federal award must not exceed the proportionate share of the IBS for the period during which the faculty member worked on the award.

(3) Intra-Institution of Higher Education (IHE) consulting. Intra-IHE consulting by faculty is assumed to be undertaken as an IHE obligation requiring no compensation in addition to IBS. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the faculty member is in addition to his or her

regular responsibilities, any charges for such work representing additional compensation above IBS are allowable provided that such consulting arrangements are specifically provided for in the Federal award or approved in writing by the Federal awarding agency.

(4) Extra Service Pay normally represents overload compensation, subject to institutional compensation policies for services above and beyond IBS. Where extra service pay is a result of Intra-IHE consulting, it is subject to the same requirements of paragraph (b) above. It is allowable if all of the following conditions are met:

(i) The non-Federal entity establishes consistent written policies which apply uniformly to all faculty members, not just those working on Federal awards.

(ii) The non-Federal entity establishes a consistent written definition of work covered by IBS which is specific enough to determine conclusively when work beyond that level has occurred. This may be described in appointment letters or other documentations.

(iii) The supplementation amount paid is commensurate with the IBS rate of pay and the amount of additional work performed. See paragraph (h)(2) of this section.

(iv) The salaries, as supplemented, fall within the salary structure and pay ranges established by and documented in writing or otherwise applicable to the non-Federal entity.

(v) The total salaries charged to Federal awards including extra service pay are subject to the Standards of Documentation as described in paragraph (i) of this section.

(5) Periods outside the academic year.

(i) Except as specified for teaching activity in paragraph (h)(5)(ii) of this section, charges for work performed by faculty members on Federal awards during periods not included in the base salary period will be at a rate not in excess of the IBS.

(ii) Charges for teaching activities performed by faculty members on Federal awards during periods not included in IBS period will be based on the normal written policy of the IHE governing compensation to faculty members for teaching assignments during such periods.

(6) Part-time faculty. Charges for work performed on Federal awards by faculty members having only part-time appointments will be determined at a rate not in excess of that regularly paid for part-time assignments.

[Office of Management and Budget Circular Uniform Guidance 2 CFR 200.430]

NOTE: OMB Uniform Guidance 2 CFR 200.430 as reprinted above discusses sponsoring agency approvals for payroll/consulting transactions. The appropriate Vanderbilt University internal approvals are also required.

E. Availability of Funds

If sponsor funds are available, appropriate direct cost items should be charged to sponsor funds in accordance with the expense category coding instructions in the following section, "Expense Category Coding".

If funds are NOT available and it is determined that the scope of work of the sponsored project cannot be modified to eliminate the need for the item, then the direct cost item should be charged to an appropriate cost share expense category [Note: internal approvals may be required] and reflected as a cost of the project, but one borne by Vanderbilt.

Expense Category Coding

What is an expense category?

At Vanderbilt, budget line items and individual expense transactions are identified by expense category numbers. The expense category classifies the transaction as salaries, fringes, supplies, travel, etc. To select the correct expense category for sponsored project budget line items or expense transactions, the principal investigator and/or grant administrator should be familiar with Vanderbilt's expense category structure.

A complete listing of Vanderbilt expense categories is maintained by Research Finance. Each grant administrator should be familiar with the expense categories available for use on sponsored projects and other centers..

Why the emphasis on proper expense category coding?

One of the elements most critical to successful financial administration of sponsored projects is the assignment of appropriate expense categories to budget line items and expense transactions, for the following reasons.

- (1) Miscoded expenses can result in incorrect indirect cost charges. The expense category determines whether or not the cost will be included in "modified total direct cost" and therefore subject to indirect cost.
- (2) Failure to identify capital equipment purchases can result in noncompliance with internal and external property management regulations. Federal regulations require that all capital equipment purchases be added to the central inventory system. The expense category used on the capital equipment requisition is one method used by central equipment inventory offices to identify capital equipment purchases to be added to central inventories.
- (3) Errors in expense category coding can result in inappropriate conclusions by the principal investigator and/or sponsor regarding financial status.
- (4) Improperly coded expenses can result in inappropriate conclusions by auditors and can adversely impact Vanderbilt's ability to effectively monitor for compliance with federal regulations regarding allowability. In an internal or external review or audit, the expense

category determines the type of review or audit procedure to which the expense is subjected, and whether the expense is viewed initially as allowable or unallowable.

- (5) The expense category distinguishes between costs funded by the agency and those cost shared by Vanderbilt. Failure to use a cost sharing expense category on cost-shared expenditures will understate Vanderbilt's contribution to the project.

Do all proposal budgets need to be detailed at the expense category level?

No, not all proposal budgets need to be prepared at the expense category level. However, funded proposals must have budgets at the expense category level.

What are some of the special circumstances related to expense category coding?

In many situations, there are several expense categories that could appropriately be used, and it is up to the grant administrator, based on guidance from the appropriate Dean, Director, or Department Head, to choose the expense category that best describes the good or service being acquired. Following are general comments on selected expense areas.

Personnel Costs:

Salaries and wages and related fringe benefit expense categories, are used for individuals hired and paid through the Vanderbilt payroll system, and the expense categories used are determined by the job code assigned to the position. Payments for services outside the Vanderbilt payroll system should be charged to Professional Services, not salaries and wages. Human Resources will assist you in determining the appropriate job code for new positions or in reclassifying existing positions.

Supplies:

For allowability reasons discussed later, proper distinction between office supplies and lab/research supplies is critical, particularly on government funded projects. Expense categories "Spec Res Unrestricted", "Special Prog/Project", "Misc Expense", "Other Expenses", and "Unassigned Expenses" are not appropriate for use, as they do not specifically identify the type of cost being charged.

Domestic vs. Foreign Travel:

Foreign travel should be charged to expense category "Travel, Foreign". Any alcoholic beverages or entertainment costs to be reimbursed to a traveler must be charged to the appropriate entertainment expense category.

Subject Participation:

All subject payments (i.e. payments to research participants) should be charged to expense category "Subject Participation", primarily used for clinical trials.

Participant Support Costs:

Direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection

with conferences, or training projects. For NIH awards these costs are only allowable when identified in the funding opportunity announcement (FOA). For the purposes of Kirschstein-NRSA programs, this term does not apply. NIH will continue to use the terms trainees, trainee-related expenses, and trainee travel in accordance with NRSA Regulations.

Subcontracts:

The first \$25,000 in payments to a subcontractor on a sponsored project should be charged to "Sub-Cont Under \$25K". Payments in excess of \$25,000 should be charged to "Sub-Cont over \$25K".

Capital Equipment:

Capital equipment funded by the sponsor should be charged to appropriate "Cap Equip" expense categories. Cost-shared capital equipment should be charged to "Equipment Cost Share". Capital equipment is defined as "an article of nonexpendable tangible personal property having a useful life of more than one year, and an acquisition cost of \$5,000* or more per unit."

Appendix A: Inappropriate Practices

The following examples are not all-inclusive. They are intended to be illustrative of certain practices that can result in direct cost disallowance during audits of sponsored agreements.

Inappropriate Practices:

1. Purchasing goods, supplies, or equipment at the end of the project simply to use up unspent funds.
2. Charging 100% of a direct cost item to a sponsored project if part of the item will be used by other projects or non-sponsored activities.
3. Replenishing departmental office supplies with grant funds.
4. "Rotating" charges among sponsored projects by month without establishing that the rotation schedule credibly reflects the relative benefit to each grant.
5. Assigning charges to the sponsored project with the largest remaining balance.
6. Identifying a cost as something other than what it actually is by using an incorrect expense category code.

In order to be allowable, direct charges must be assignable to a sponsored project "in accordance with benefits received". **If the sponsored project could not have reasonably benefited from the items purchased, then the cost would not be allocable to the sponsored project.**

Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. [Office of Management and Budget Uniform Guidance 2 CFR 200.413]

Appendix B: Central Offices - Sponsored Awards Administration

Vanderbilt University maintains central offices to coordinate overall activities related to sponsored projects and promote consistent practices among the various recipients of contracts and grants. These offices are available to assist principal investigators, department chairs and/or administrators, deans and/or deans' office administrators and directors and/or directors' office administrators in interpreting agency regulations and Vanderbilt policy and procedures relating to budgeting and charging direct costs on sponsored projects.

PRE-AWARD OFFICE

Sponsored Programs Administration 322-2631

Responsible for submission of grant proposals for external support of research, creative, instructional, and service activities; review and approval of proposals that will result in contracts, negotiation and acceptance of research and research-related contracts and supports investigators who have or plan to apply for external funding and departmental administrators who assist these investigators with proposal preparation and award administration.

POST-AWARD OFFICE

Research Finance, 343-6655

Responsible for coordinating compliance activities related to post award management including reviewing selected transactions, reporting financial results to sponsoring agencies, and coordinating agency audits of University contracts and grants.