

Direct Cost

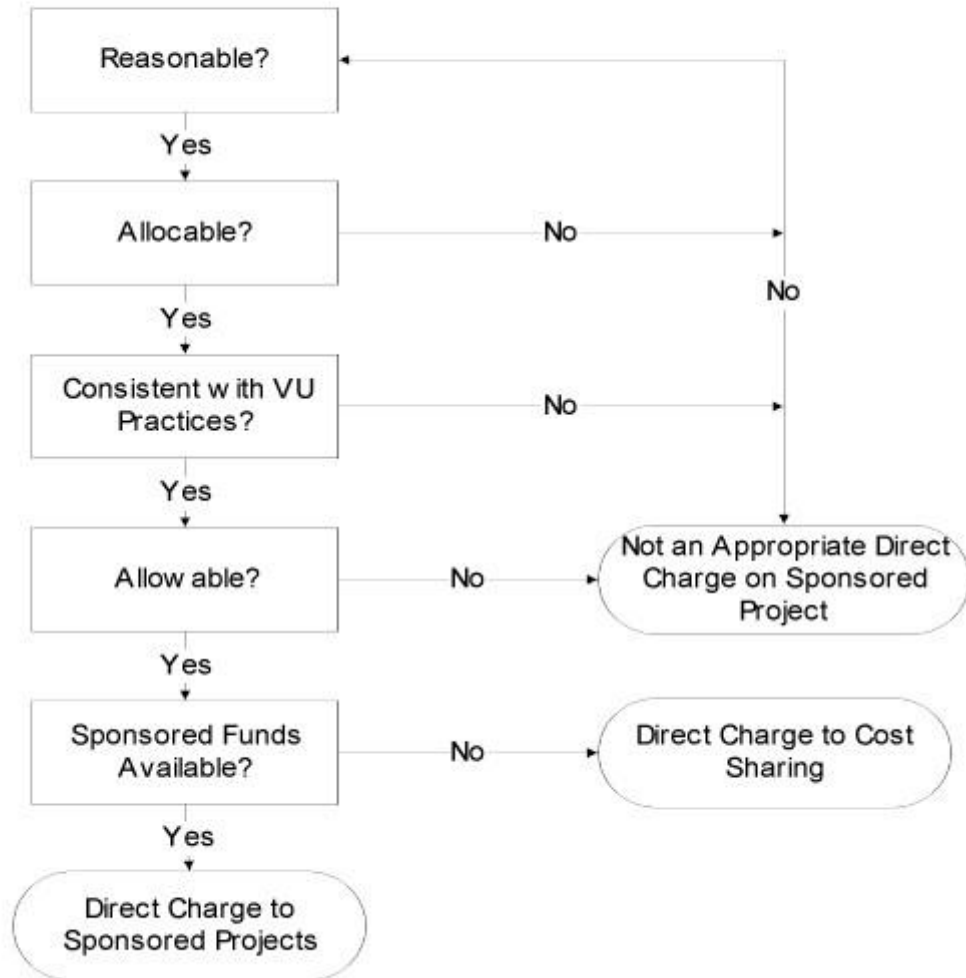
Vanderbilt University

Guidelines for Budgeting and Charging Direct Costs on Sponsored Projects (11/15/96)

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Is the cost.....



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 Circular A-21 sets forth general criteria for determining the allowability of direct costs on government sponsored projects at educational institutions. 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 C 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

Roles and responsibilities for the appropriate budgeting and charging of direct costs on sponsored projects:

Principal Investigator

The principal investigator is responsible for justifying the appropriateness of direct costs budgeted and charged on sponsored projects in accordance with overall government regulations, sponsoring agency guidelines, conditions made as a part of an individual award, and Vanderbilt policies and guidelines. Providing this justification both in budgeting for and charging sponsored projects requires close familiarity with the programmatic and technical aspects of the sponsored project. For this reason, primary responsibility for justifying the appropriateness of direct costs in accordance with government regulations, sponsoring agency guidelines, and Vanderbilt guidelines rests with the principal investigator.

According to the Public Health Service Grants Policy Statement, a principal investigator/program director/project director is "An individual designated by the [university] to direct the project or program being supported by the grant. He or she is responsible and accountable to [university] officials for the proper conduct of the project or program. The [university] is, in turn, legally responsible and accountable to the Public Health Service for the performance and financial aspects of the grant-supported activity."

Department Chair/Administrator

The Department Chair's/Administrator's role is to be a resource for principal investigators, advising on proper direct cost charging and budgeting practices within government and other sponsoring agency regulations and Vanderbilt guidelines. Department offices should maintain copies of government, other sponsoring agency and Vanderbilt policies and guidelines pertaining to sponsored projects.

Dean/Director

The Dean's/Director's role is to ensure guidance is provided to principal investigators and departments on criteria used to determine allowable direct costs on sponsored projects. Each

Dean/Director is responsible for having a mechanism in place to ensure principal investigators and administrators understand accountability for direct cost budgeting and charging to sponsored projects.

Central Offices

These offices are responsible for providing University-wide guidance on criteria used to determine allowable direct costs on sponsored projects. See [Appendix C](#) for a list of central offices.

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.

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 account codes is included in the section of this Guide titled "**Account 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 account [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 Circular A-21, Section C.5., the term "applicable credits" refers to those receipts or negative expenditures that offset or reduce direct cost items.

"Typical examples of such transactions are: purchase discounts, rebates, or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges. This term also includes 'educational discounts' on products or services provided specifically to educational institutions, such as discounts on computer equipment, except where the arrangement is clearly and explicitly identified as a gift by the vendor."

Direct Costs: Reasonableness

A. Reasonableness

Government Regulation.....

A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are:

- a. whether or not the cost is of a type generally recognized as necessary for the.....performance of the sponsored agreement;
- b. the restraints or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions;
- c. whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal Government, and the public at large; and
- d. the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

[Office of Management and Budget Circular A-21, Section C.3.]

Direct Costs: Allocability

B. Allocability

Government Regulation.....

Allocability: General Rule

A cost is allocable to a particular sponsored project if the goods or services involved are chargeable or assignable to the sponsored project in accordance with relative benefits received or other equitable relationship. Subject to the foregoing, a cost is allocable to a sponsored agreement if:

1. it is incurred solely to advance the work under the sponsored agreement; or
2. it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods.

[Office of Management and Budget Circular A-21, Section C.4.a.]

Exception to Allocability Rule: Capital Equipment

Where the purchase of equipment or other capital items is specifically authorized by the sponsor (NOTE: "authorized" means approved by the sponsor (or internally approved, if such internal approvals are allowed by the sponsor)), the amounts thus authorized for purchase are assignable to the sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved. **[Office of Management and Budget Circular A-21, Section C.4.a.]**

Cost Benefits Two or More Projects

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should 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 the costs may be allocated or transferred to benefited projects on any reasonable basis. However, this allocation cannot be used to eliminate cost overruns. **[Office of Management and Budget Circular A-21, Section C.4.d.(3)]**

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 sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs of sponsored agreements. 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. **[Office of Management and Budget Circular A-21, Section D.]**

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 sponsored work (i.e., the scope of work) rather than the nature of the goods or services is the determining factor in determining direct costs. [Office of Management and Budget Circular A-21, Section D.]

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 sponsored work (i.e., the scope of work) rather than the nature of the goods or services is the determining factor in determining direct costs. [Office of Management and Budget Circular A-21, Section D.]

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. [NOTE: An exception may exist for program/project or "center" sponsored agreements where routine administrative work has been described in the scope of work and approved/funded by the sponsoring agency.]

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.

Direct Cost?		<u>YES</u>	<u>NO</u>
<u>Salaries</u> expense incurred under the following circumstances.....			
1.	Processing purchase orders on a research grant (such as an "R01")		<input checked="" type="checkbox"/>
2.	Processing purchase orders on a center/program project grant (admin effort documented in proposal as part of scope of work)	<input checked="" type="checkbox"/>	
3.	Proposal development (writing, editing, copying and mailing proposals)		<input checked="" type="checkbox"/>
4.	Principal investigator effort to write annual project report (may include next budget year's proposal)	<input checked="" type="checkbox"/>	
5.	Data entry (data collected under project scope of work)	<input checked="" type="checkbox"/>	
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.)		<input checked="" type="checkbox"/>
<u>Supplies and/or services</u> expense incurred under the following circumstances.....			
1.	Copying costs for copying purchase orders, monthly ledgers		<input checked="" type="checkbox"/>
2.	Copying costs for annual progress reports	<input checked="" type="checkbox"/>	
3.	Mailing costs for shipment of research materials and deliverables if necessary to perform the project's scope of work	<input checked="" type="checkbox"/>	
4.	Copying costs for copying forms to mail out to survey recipients (survey is part of project scope of work)	<input checked="" type="checkbox"/>	
5.	Manilla folders for general office use		<input checked="" type="checkbox"/>
6.	Manilla folders for filing survey responses, lab results	<input checked="" type="checkbox"/>	

Identification with the sponsored work (i.e., the scope of work) rather than the nature of the

goods or services is the determining factor in determining direct costs. [Office of Management and Budget Circular A-21, Section D.)

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 Division of Sponsored Research (for University Central) or to the Office of Biomedical Sciences (for Medical Center grants) or to the Contracts Administration Office (for Medical Center contracts) 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 Circular A-21.

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 Circular A-21, Section J.8.d.:

J.8.d. Salary rates for faculty members.

(1) Salary rates for academic year.

Charges for work performed on sponsored agreements by faculty members during the academic year will be based on the individual faculty member's regular compensation for the continuous period which, under the policy of the institution concerned, constitutes the basis of his salary. Charges for work performed on sponsored agreements during all or any portion of such period are allowable at the base salary rate. In no event will charges to sponsored agreements, irrespective of the basis of computation, exceed the proportionate share of the base salary for that period. This principle applies to all members of the faculty at an institution. Since intra-University consulting is assumed to be undertaken as a University obligation requiring no compensation in addition to full-time base salary, the principle also applies to faculty members who function as consultants or

otherwise contribute to a sponsored agreement conducted by another faculty member of the same institution. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the consultant is in addition to his regular departmental load, any charges for such work representing extra compensation above the base salary are allowable provided that such consulting arrangements are specifically provided for in the agreement or approved in writing by the sponsoring agency.

(2) Periods outside the academic year (i.e., Summer Salary).

(a) Except as otherwise specified for teaching activity in subsection (b) below, charges for work performed by faculty members on sponsored agreements during the summer months or other period not included in the base salary period will be determined for each faculty member at a rate not in excess of the base salary divided by the period to which the base salary relates, and will be limited to charges made in accordance with other parts of this section. The base salary period used in computing charges for work performed during the summer months will be the number of months covered by the faculty member's official academic year appointment.

(b) Charges for teaching activities performed by faculty members on sponsored agreements during the summer months or other periods not included in the base salary period will be based on the normal policy of the institution governing compensation to faculty members for teaching assignments during such periods.

(3) Part-time faculty.

Charges for work performed on sponsored agreements by faculty members having only part-time appointments will be determined at a rate not in excess of that regularly paid for the part-time assignments. For example, an institution pays \$5000 to a faculty member for half-time teaching during the academic year. He devoted one-half of his remaining time to a sponsored agreement. Thus, his additional compensation, chargeable by the institution to the agreement, would be one-half of \$5000, or \$2500.

[Office of Management and Budget Circular A-21, Section J.8.d.]

NOTE: Section J.8.d. as reprinted above discusses sponsoring agency approvals for payroll/consulting transactions. The appropriate Vanderbilt University internal approvals are also required.

Direct Costs: Availability of Funds

E. Availability of Funds

If sponsor funds are available, appropriate direct cost items should be charged to sponsor funds in accordance with the account coding instructions in the following section, "Account 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 account [Note: internal approvals may be required.] and reflected as a cost of the project, but one borne by Vanderbilt.

Account Coding

What is an account?

At Vanderbilt, budget line items and individual expense transactions are identified by a five-digit

account number. This account classifies the transaction as salaries, fringes, supplies, travel, etc. To select the correct account for sponsored project budget line items or expense transactions, the principal investigator and/or grant administrator should be familiar with Vanderbilt's account structure.

A complete listing of Vanderbilt accounts is maintained by the Office of Contract and Grant Accounting and Medical Center Financial Management. Each grant administrator should be familiar with the accounts available for use on sponsored projects and other centers. Please contact the appropriate individuals in [Appendix C](#) to obtain copies.

Why the emphasis on proper account coding?

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

- (1) Miscoded expenses can result in incorrect indirect cost charges. *The account 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 account 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 account 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 account 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 account distinguishes between costs funded by the agency and those cost-shared by Vanderbilt. Failure to use a cost sharing account on cost-shared expenditures will understate Vanderbilt's contribution to the project.

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

No, not all proposal budgets need to be prepared at the account level. However, **funded** proposals must have budgets at the account level per the May 8, 1996 revision to Office of Management and Budget Circular A-21, Section C.10.:

Section C. 10. Consistency in estimating, accumulating and reporting costs.

- a. An educational institution's practices used in estimating costs in pricing a proposal shall be consistent with the educational institution's cost accounting practices used in accumulating and reporting costs.
- b. An educational institution's cost accounting practices used in accumulating and reporting actual costs for a sponsored agreement shall be consistent with the educational institution's practices used in estimating costs in pricing the related proposal or application.
- c. The grouping of homogeneous costs in estimates prepared for proposal purposes shall not per se be deemed an inconsistent application of cost accounting practices under subsection a when such costs are accumulated and reported in greater detail on an actual cost basis during performance of

the sponsored agreement.

What are some of the special circumstances related to account coding?

In many situations, there are several accounts 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 account that best describes the good or service being acquired. Following are general comments on selected expense areas.

Personnel Costs: 50000-59999

Salaries and wages and related fringe benefit accounts, 50000 - 59999, are used for individuals hired and paid through the Vanderbilt payroll system (Human Resource System - HRS), and the accounts used are determined by the job code assigned to the position. Payments for services outside the Vanderbilt payroll system should be charged to the appropriate account in the Professional Services (63xxx) range. The Classification and Compensation department of Human Resource Services will assist you in determining the appropriate job code for new positions or in reclassifying existing positions.

Supplies: 60000-60999

For allowability reasons discussed later, proper distinction between office supplies and lab/research supplies is critical, particularly on government-funded projects. Accounts 61440 "Spec Res Unrestricted", 61450 "Special Prog/Project", 61900 "Misc Expense", 61910 "Other Expenses", and 61920 "Unassigned Expenses" are not appropriate for use, as they do not specifically identify the type of cost being charged.

Travel: 62000-62999

Foreign travel should be charged to account 62660 "Travel, Foreign". Any alcoholic beverages or entertainment costs to be reimbursed to a traveler must be charged to the appropriate entertainment account, 6211x.

Subject Participation: 63400

All subject payments should be charged to account 63400 "Subject Participation".

Subcontracts: 63900/63910

The first \$25,000 in payments to a subcontractor on a sponsored project should be charged to 63900 "Sub-Cont Under \$25K". Payments in excess of \$25,000 should be charged to 63910 "Sub-Cont over \$25K".

Capital Equipment: 74010-74090 and 74300

Capital equipment funded by the sponsor should be charged to accounts in the range 74010 through 74090. Cost-shared capital equipment should be charged to 74300 "Equipment Cost Share". Effective July 1, 1996, 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 \$3,000* or more per unit." [Colleges and Universities Rate Agreement, Section I: "Indirect Cost Rates" dated May 3, 1996].

*The \$3,000 capitalization threshold currently does not apply to Vanderbilt entities subject to Medicare regulations such as Vanderbilt University Hospital, The Vanderbilt Clinic and certain entities under the umbrella of Vanderbilt Health Services such as HomeCare and Vanderbilt Health Plan. For these entities, the capitalization threshold is \$500.

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. [For example, the Public Health Service Grants Policy Statement, section 8-16 states that "If for any reason equipment that has been ordered in good faith will not be received until after a project has terminated or will be received too late in the project for effective use, all reasonable effort must be made to cancel the order or to charge the equipment to other 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 [capital equipment **approved by the sponsor** (or approved internally if allowed by the sponsor) is excluded from this requirement].
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 account 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 sponsored work (i.e., the scope of work) rather than the nature of the goods or services is the determining factor in determining direct costs. [Office of Management and Budget Circular A-21, Section D.]

Appendix B: OMB Guidance on Treatment of Administrative and Clerical Salaries

Complete Text of Office of Management and Budget (OMB) clarification of Circular A-21, Section F.6.b., including statements from May 17, 1994 and July 13, 1994:

OMB CIRCULAR A-21

TREATMENT OF ADMINISTRATIVE AND CLERICAL SALARIES

Question

Section F.6.b. of the July 1993 revision of Circular A-21 says that the salaries of administrative and clerical staff should normally be treated as indirect costs. This section goes on to say that direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and the individuals involved can be specifically identified with the project or activity. What is the intent of this provision and under what circumstances may these costs be directly charged to sponsored agreements?

Answer

This provision is intended to establish the principle that the salaries of administrative and clerical staff should usually be treated as indirect costs, but that direct charging of these costs may be appropriate where the nature of the work performed under a particular project requires an extensive amount of administrative or clerical support which is significantly greater than the routine level of

such services provided by academic departments. The costs would need to meet the general criteria for direct charging in Section D.1. [of Circular A-21] - i.e., "be identified specifically with a particular sponsored project...relatively easily with a high degree of accuracy," and the special circumstances requiring direct charging of the services would need to be justified to the satisfaction of the awarding agency in the grant application or contract proposal.

The following examples are illustrative of circumstances where direct charging the salaries of administrative or clerical staff may be appropriate.

- Large, complex programs, such as General Clinical Research Centers, Primate Centers, Program Projects, environmental research centers, engineering research centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.
- Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting, such as epidemiological studies, clinical trials, and retrospective clinical records studies.
- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- Projects that are geographically inaccessible to normal departmental administrative services, such as seagoing research vessels, radio astronomy projects, and other research field sites that are remote from the campus.
- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocol, IRB preparations and/or other project-specific regulatory protocols; and multiple project-related investigator coordination and communications.

These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples. Where direct charges for administrative and clerical salaries are made, care must be exercised to assure that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities. This should be accomplished through a "Direct Charge Equivalent" or other mechanism that assigns the costs directly to the appropriate activities.

Appendix C: Central Offices - Sponsored Project 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.

University Central

1. Division of Sponsored Research, 937 Baker Building, 322-3977 John Childress, Director
Responsible for assisting investigators in identifying funding sources, developing proposals, and coordinating compliance activities related to proposal budget development

*and post-award budget actions for University Central **contracts** and **grants**.*

2. Office of Contract and Grant Accounting, 952 Baker Building, 343-6655 Michelle Vazin, Associate Director, Grants Services *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 Central **contracts** and **grants**.*

Medical Center

1. Office of Research, CCC 3322 Medical Center North, 322-4303 John Manning, Executive Director of Research Operations Robin Ginn, Executive Director Research Informatics & Regulatory Affairs Melinda Cotten, Director, Grants and Contracts Management *Responsible for assisting investigators in identifying funding sources, developing proposals, and coordinating compliance activities related to proposal budget development and post-award budget actions for Medical Center **grants**.*

2. Contract Administration, 605 Oxford House, 936-0669 Sherry Fitzgerald, Director *Responsible for coordinating compliance activities related to proposal budget development and post-award budget actions for Medical Center **contracts**.*

3. Department of Finance, Suite 800 Crystal Terrace, 322-2381 Melissa Smith, Assistant Director *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 Medical Center **contracts** and **grants**.*

***** End of policy *****