

**GEORGE MASON UNIVERSITY
OFFICE SPONSORED PROGRAMS**

Memo to: Principal Investigators on Federal Sponsored Projects
Unit Research Administrators
Research Associate Deans
Deans and Directors

From: Matt Kluger, Vice President for Research & Economic Development

Subject: OMB Circular A-21 Principles and Allowable Costs

In light of recent audit experience, the Controller's Office and Office of Sponsored Programs have been reviewing costs charged to federally sponsored projects. This memo provides an overview of certain costs that are not generally allowable as direct charges. It is the responsibility of the Schools, Colleges, and Institutes (i.e., the units that benefit directly from indirect cost revenues) to provide sufficient funding to individual investigators to cover these expenses that the government and the University consider allowable, but indirect.

ALLOWABILITY

Office of Management and Budget Circular A-21 sets forth principles for determining costs applicable to Federal grants, contracts, and other agreements with educational institutions. The Circular prescribes which costs are allowable and not allowable for recovery from the Government and of the costs considered allowable, whether the institution most appropriately treats them as direct or indirect. The Circular gives reasonably clear guidance on a subset of these costs, generally referred to at Mason as "A-21 sensitive" items.

The relevant sections of the Circular are attached to this note. In summary, A-21 states that the following costs should normally be treated by the institution as indirect costs: the salaries and associated benefits of administrative and clerical staff, office supplies, postage, local telephone costs, and memberships. Use of the qualifier "normally" gives the University some latitude in interpreting the A-21 guidelines.

Based on many years of experience with this A-21 language, the University currently uses the following guidelines for each of the categories. The point of departure, however, remains that these costs are generally unallowable as direct charges to federally sponsored projects.

Administrative and Clerical Expenses

Direct charging 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. Examples of "major projects" are offered in Exhibit C of Circular A-21 (also attached). The key is that the project requires support services beyond the normal scope necessary for the typical project. OSP shall provide guidance to assist in determining if a project meets the criteria of a major project.

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Office Supplies

This category includes, for example, computers (under \$2,000), printers, monitors, fax machines, printer paper, toner cartridges, pens, pencils, legal pads, clips, rubber bands, post-it notes, books, individual subscriptions to journals, notebooks, binders, folders, diskettes, and departmental stationery. The category does not include printing, photocopying and duplication, research publication costs, and page charges, (i.e., these are generally treated as allowable direct charges). Photocopying may be allowable if a separate copy card is used for the project. The category also does not include laboratory supplies.

The circumstances surrounding the expenses in this category play a major role in determining whether to treat as an exception, i.e., to permit as a direct charge. As an example, computers are necessary to the overall administration of a sponsored project. Purchasing computers for this purpose would generally be considered an indirect cost expense – part of the normal wherewithal the institution can reasonably be expected to provide for its research staff. Purchasing computers to control and monitor scientific equipment, however, represents a different circumstance or use of that equipment and would typically be allowed as a direct charge.

Postage (stamps)

The postage costs associated with the normal administration of the project are generally not allowable as direct charges to the project. Examples include interactions with vendors, routine correspondence with the sponsor, colleagues, and potential publishers, and students. In general however, the costs of overnight shipping and handling (e.g., Federal Express) are allowable assuming they are directly associated with the conduct of the project. The principal reason for this distinction is that the latter can be directly assigned to a particular project relatively easily and with a high degree of accuracy. Stamps are generally purchased in bulk and consumption cannot, in a cost effective manner, be assigned to a specific activity.

Telephones

The costs of local telephone lines used to conduct routine business of the project should not be direct charged to a project. Telephones used for the conduct of surveys are allowable as this would represent an unlike circumstance to routine business purposes. Telephone toll charges are allowable if they are directly related to the project activities.

The University takes the position that cell phones and prepaid long distance calling cards also should not be direct charged to Federal sponsored projects because there is no easy or accurate way to monitor usage to ensure project relatedness.

Memberships

The dues to maintain individual memberships in professional and scientific organizations are not allowable direct costs to federal sponsored projects. They are considered professional development expenses and should be covered with discretionary or personal funds.

PROPOSAL BUDGETS

To charge these expenses to a Federally sponsored project, the following three criteria must be met ***during the proposal process***:

1. The project meets the criteria for a major project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments. See A-21, Exhibit C.
2. The costs can be specifically identified with a high degree of accuracy with the objectives of the project or activity.
3. The costs are explicitly listed in the University-proposed and sponsor-approved budgets.

The preferred test for allowability is explicit approval from the sponsoring agency. For all A-21 sensitive items listed above, the charges should be explicitly justified and explained in the budget and budget narrative section of the proposal. Before any charges will be allowed against sponsored agreements, awards must provide evidence that the budget has sponsor approval. Principal Investigators and their units are responsible for ensuring that costs assigned to the project are appropriate.

To justify A-21 sensitive charges in proposal budgets, the following items should be addressed in the budget or budget narrative:

- Because all projects require a certain level of account reconciliation, correspondence, communications, and office expenses, how does the proposed charge differ from the standard level expected to be provided by the institution for all projects?
- Is the nature of the work different from the general administrative work conducted for all sponsored projects? Are the charges necessary to meet the technical needs of the award rather than to support the administrative needs?
- The cost category (e.g., office supplies) may imply that the items are being used for administrative purposes. How will the items be used to meet the technical needs of the project? Explain in detail their relevance to the methods used in conducting the project.
- Can the proposed charges be easily and accurately documented as appropriate to the project? How will this be done?

POST AWARD REBUDGETING

As an exception, local rebudgeting authority may be exercised by OSP, and can substitute for explicit sponsor approval in those instances where 1) the terms of the award **allow** such post-award rebudgeting flexibility, and 2) the need for the expense was not contemplated at the time the original budget was prepared. It should be noted that in most cases local rebudgeting authority is given only on grants. It is rarely allowed on contracts. On subcontracts, it is advisable to check with the appropriate Office of Sponsored Programs team leader to discuss the local rebudgeting flexibility.

This post-award authority should be used on rare occasions only and should never be used to circumvent the integrity of the proposal budgeting process.

UNACCEPTABLE PRACTICES

Unacceptable direct charging practices include:

- Purchasing items simply to exhaust an unobligated balance.
- Rotating charges among projects.

- Assigning charges to a project on the basis of the remaining balance to resolve availability of funding issues or simply to avoid the loss of carry-forward balances.
- Charging the budgeted amount (in contrast to an amount based on actual usage).
- Assigning charges to an award before the cost is incurred.
- Charging an expense exclusively to a single award when the expense clearly has supported other activities.
- Applying a unit "tax" to projects to distribute clerical and administrative expenses.
- Transferring an overdraft from one sponsored project to another, without express sponsor approval.

POST EXPENSE REVIEW PROCESS

An annual review will be done on all Federal projects to ensure that the expenditures incurred on the projects are in accordance with A-21 and sponsor terms and conditions. If expenditures do not comply, they will be questioned by the Office of Sponsored Programs. Justification for those expenditures will be required to allow the expenses to remain on the project. If justification is not received, those expenses must be removed from the sponsored project.

AUDIT RESOLUTION

All sponsored projects are subject to audit by their respective agencies. Receiving justification will not guarantee that the expenses may not be questioned at a later date. While the procedures outlined above are in place to put the University in a strong position with respect to potential disallowances, they may still occur. In the event of a disallowance, the responsibility for covering any disallowance will belong to the academic unit.

"Exhibit C" of OMB Circular A-21

Examples of "major projects" where direct charging of administrative or clerical staff salaries 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 research vessels, radio astronomy projects, and other research fields sites that are remote from campus.
- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal 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. For instance, the examples would be appropriate when the costs of such activities are incurred in unlike circumstances, i.e., the actual activities charged direct are not the same as the actual activities normally included in the institution's facilities and administrative (F&A) cost pools or, if the same, the indirect activity costs are immaterial in amount. It would be inappropriate to charge the cost of such activities directly to specific sponsored agreements if, in similar circumstances, the costs of performing the same type of activity for other sponsored agreements were included as allocable costs in the institution's F&A cost pools. Application of negotiated predetermined F&A cost rates may also be inappropriate if such activity costs charged directly were not provided for in the allocation base that was used to determine the predetermined F&A cost rates.