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|  | Direct Charging Policy | Responsible Administrative Unit: Finance & Administration |
| | Issued: November 2009 Revised: | Policy Contact: Director of Research Administration Ralph.Brown@is.mines.edu |

1.0 BACKGROUND AND PURPOSE

Federal sponsors require that direct costs of research be related to specific actions supported by a grant. These costs must be reasonable and necessary, not exceeding the costs that would be incurred by a prudent person, and they must be allowable, allocable, and easily identifiable as a benefit to the project receiving the charge.

Because institutions provide infrastructure support that is not easily identifiable with specific projects, they are allowed to apply Facilities and Administrative (F&A; formerly indirect costs) support costs to federal grants and contracts on an average rate basis to help offset the infrastructure costs. As required by the federal Office of Management and Budget Circular A-21, the Colorado School of Mines negotiates a Facilities and Administrative cost rate agreement with the federal government to arrive at the F&A reimbursement rate. In the process of developing the F&A rate proposal, a number of institutional cost pools are applied to identify the indirect cost of conducting research. These cost pools include obvious items, such as utilities, depreciation, library services, sponsored program administration, and a portion of departmental and central personnel, to be assigned to the institution's research infrastructure costs. They also include other "administrative" items (such as office supplies, postage, local telephone costs, journals, and subscriptions) in proportion to research spending relative to total institutional spending. Because the university is reimbursed for these administrative supplies as a part of the F&A rate, the cost of these items **cannot be charged as direct costs**.

Circular A-21 does allow these expenses to be charged directly to a sponsored project in certain circumstances. Direct charging may be appropriate where a major project or activity explicitly budgets for administrative or clerical services/supplies, and these costs can be specifically identified with the project or activity. Examples of major projects (taken from OMB Circular A-21, Exhibit C) where it **may** be allowable to direct charge expenses that are normally treated as F&A costs are identified in Appendix A. **The examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries or clerical supplies would always be appropriate for the situations described above.**

The purpose of this policy is to provide the institutional standard for determining how costs are charged to grants, contracts and other sponsored projects whether they are supported by federal or private funds.

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2.0 DEFINITIONS:

2.1 OMB Circular A-21: A document from the Federal Office of Management and Budget that defines cost principles for educational institutions, including appropriate charges to Federal awards.

2.2 Cost Accounting Standards: The Cost Accounting Standards, implemented in 1980 by the Cost Accounting Standards Board, outline standards to achieve consistency in cost accounting practices. These standards address the measurement, assignment, and allocation of costs to the federal government.

2.3 Cost Sharing: Project expenses that are not reimbursed by the sponsoring agency but contributed to the project by Mines and other collaborators either voluntarily or as required by the sponsor.

2.4 Direct Costs: Expenses specifically associated with a particular grant, contract or other sponsored project. Direct expenses must be specifically identified as project activities with relative ease and a high degree of accuracy.

2.5 Facilities and Administrative costs: (F&A - also referred to as indirect costs or overhead) Costs associated with the conduct of sponsored activities that are incurred for common or joint objectives and therefore are not readily identifiable with a specific project.

2.6 Major Project: A project that requires an extensive amount of administrative or clerical support/supply costs that are significantly greater than the routine level of services provided by academic departments.

2.7 Allowable costs: According to OMB Circular A-21, expenses are chargeable to grants, contracts and other sponsored projects only if they are:

2.7.1 Reasonable: A prudent person would have purchased this item and paid this price. Considerations involved in the determination of the reasonableness of a cost are whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored project, federal and state regulations, sponsored agreement terms and conditions, and the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices.

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2.7.2 Allocable: Expenses can be assigned to the activity based on the benefit derived. A cost is allocable to a grant, contract or sponsored project if it is incurred solely to advance the work under the sponsored agreement.

2.7.3 Consistently Treated: Like expenses must be treated the same in like circumstances. OMB Circular A-21 states that no cost can be charged to a grant, contract or other sponsored project as a direct charge if other costs incurred for the same purpose in the same circumstances have been included in the negotiated facilities and administrative cost rate. See Appendix B

2.7.4 In conformity to any limitations or exclusions set forth in OMB Circular A-21: A-21 defines categories of costs that are allowable as direct costs, allowable as indirect costs, and unallowable.

3.0 POLICY

The Colorado School of Mines follows the general guidelines in sections D and E of Circular A-21 in determining the treatment of costs as direct or indirect. Mines' F&A costs are consistent with the definitions of specific F&A cost categories in section F of Circular A-21. It is the responsibility of the university to ensure that costs incurred for the same purpose, in like circumstances, are consistently treated as either direct or F&A costs.

4.0 COST CATEGORIES

The following are lists of costs that are normally either direct, F&A, or unallowable expenses on a sponsored project under "like" circumstances.

4.1 Normally Direct Costs: The following should normally be directly charged to sponsored accounts. However, the terms of the specific agreement and the sponsoring agency's regulations must be reviewed prior to determining the appropriateness of costs for an individual project. Note also that direct costs must meet the criteria as stated above, i.e., allowable, directly benefiting the project, reasonable, and consistently treated.

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- Salaries and Wages/Employee Benefits: Faculty, technicians, research associates and assistants, including graduate research assistants and other students performing scientific or technical work, post doctoral associates and other technical and programmatic personnel necessary to meet the goals of the project.
- Professional and Consulting Fees: Specific restrictions may apply to hourly and daily rates. An individual may not normally be an employee and a consultant on the same sponsored agreement.
- Repairs and maintenance: Costs incurred for necessary maintenance, repair, or upkeep of property or equipment (purchased as a direct charge to the project) keeping it in an efficient operating condition.
- Special purpose equipment: equipment that is used only for research, medical, scientific, or other technical activities.
- Supplies: Laboratory and scientific supplies, chemicals, glassware, field supplies, compressed gases and liquids, radioactive material, and animals. These items should be charged to projects based on benefit derived. If multiple projects are being supported in one lab there must be a reasonable method of documenting allocation of charges to all projects.
- Telephone: long distance charges necessary to carry out the objectives of the sponsored project.
- Travel required to carry out the objectives of the sponsored project.
- Food costs for routine operations or staff meals are allowable in the course of travel or as part of a bona fide meeting related to the terms of the project. For seminars, food costs may be appropriate as a direct cost when related to the specific needs of the agreement, in which case they are usually authorized as part of the agreement. Documentation, including the names of those in attendance, CSM or non-CSM employee, must be provided in order to directly charge food to a sponsored agreement.

4.2 Normally F & A costs: The following are normally treated as F&A costs and are not directly charged to sponsored agreements nor used as cost sharing. These costs are charged to institutional funds and recovered through applications of the F&A rate.

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- Accounting and audit costs.
- Computer Services or Use Fees: Routine, standard computer services, hookups and networking costs, including ITS/Networking costs.
- Salaries and Wages/Employee Benefits: Administrative and clerical positions such as administrative assistants, accountants, office personnel, student office workers, purchasing agents and buyers; administrative activities of directors and assistant/associate directors, executive assistants, and other administrators.
- General purpose equipment: Equipment not limited to research, medical, scientific or other technical activities. Examples of general-purpose equipment include office equipment (personal computers, FAX machines, typewriters, copiers) and furnishings (desks, chairs, and file cabinets), air conditioning equipment, reproduction and printing equipment, and motor vehicles.
- Legal services, insurance, general recruitment advertising, repair and maintenance of general purpose equipment and facilities.
- Supplies: Office supplies (printers, scanners, paper, toner, post-its, markers, hole punchers, binders, folders, forms,) custodial supplies, parts and supplies associated with repair and maintenance of general purpose equipment and facilities, general purpose books and reference materials.
- Library costs/collections/acquisitions.
- Travel related to administrative activities.
- Postage (including express delivery, etc.)
- Basic telephone service, installation, repair, and line charges; fax line charges; cellular phone purchase and use fees; utilities.
- Dues/memberships in professional and technical organizations, subscriptions (other than those specifically required for the performance of the sponsored activity).

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4.3 Unallowable Costs: The following types of costs may not be charged to a federally sponsored agreement either directly or as F&A costs. This is a quick reference. Please be aware that there are some exceptions to some of the categories listed.

- Advertising, Public Relations and Promotional Costs
- Alcoholic beverages
- Alumni activities
- Awards, prizes, trophies
- Bad debts
- Commencement Costs
- Contingency provisions
- Entertainment costs
- Fines and penalties
- Flowers, gifts
- Food costs for routine operations or staff meals
- Fund raising and investment management costs
- First class or other non-coach class travel
- Goods or services not specified by the agreement
- Housing and personal living expenses
- Interest, fund raising and investment management costs
- Memberships in social, dining, country clubs, or civic organizations
- Parking tickets
- Selling and Marketing
- Student activities

5. 0 APPROVAL OF EXCEPTIONS

Federal regulations state that sponsor approval of a budget **does not constitute approval of each specific line item**. The sponsor assumes that researchers at CSM have complied with A-21, the Cost Accounting Standards, our F&A proposal assumptions, and any other applicable regulations. If a Principal Investigator believes that any of the normally F&A costs listed above are appropriate as direct costs, they should be included in the proposal budget and be fully justified on the basis of the unique or mitigating scientific/technical needs of the project. Requests for direct charging of items normally considered to be F&A must be reviewed and approved by the Office of Research Administration (ORA). If the Principal Investigator determines that there is a need for these types of costs but they were not included and justified in the original budget

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submitted to the sponsor or to the Office of Research Administration, the Principal Investigator may request an exception to direct charge the costs. In accordance with Circular A-21 requirements, CSM requires written justification to be provided to ORA for an item normally considered an F&A cost to be directly charged to a sponsored project. The justification must specifically address how the cost would benefit the project, how the charge would be assigned to the project with a high degree of accuracy, and what the unique or mitigating scientific/technical needs of the project are.

A satisfactory justification will answer the following questions:

- Does the cost provide a direct benefit to the purpose or objective of the project?
- Does the cost meet the requirements of a direct cost?
- Can the cost be specifically identified with a project with relative ease and with a high degree of accuracy, and is it allowed by the terms and conditions governing the particular award?
- For clerical and administrative salaries, do the facts and circumstances meet the criteria to qualify as an exception as described by the OMB guidelines?

The justification must be submitted to the Grants Administrator. ORA shall be responsible for review and approval of exceptions and shall have final decision authority.

6.0 RESPONSIBILITY

Principal Investigators are responsible for assuring that the costs assigned to projects are appropriate. Principal Investigators and their department are responsible for any disallowance from external or internal audit and review.

Caution should be exercised in requesting and approving the direct charging of costs normally treated as F&A costs. Restricted cost categories and other inappropriate charges can be readily detected in audits, resulting in disallowances that must be reimbursed to the federal government. In recent years, several institutions have had sponsored program audit findings resulting from direct charging items that are normally considered F&A costs. The items charged were disallowed, and the institutions were required to return the funds to the federal government and lost the ability to use those funds for allowable charges.

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Departments should contact ORA directly regarding fiscal/administrative matters.

7.0 APPENDIX A: Charging Normally Indirect Costs as Direct Costs

The following are examples of exceptional circumstances to possibly charge normally indirect costs as direct costs:

7.1 Administrative/Managerial/Clerical Salaries/Wages/Benefits: These costs may only be authorized for large complex projects when the nature of the work performed requires an extensive amount of administrative or clerical support. Such costs might be appropriate for:

7.2 Large complex programs: such as program projects and other agreements that entail assembling and managing teams of investigators from a number of departments or institutions.

- Projects that involve extensive data accumulation, entry and analysis, surveying, tabulation, cataloging, searching literature and reporting.
- Projects that require travel and meeting arrangements for large numbers or participants, such as conferences and seminars.
- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (this does not include routine progress and technical reports or scientific manuscripts).
- 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;

7.3 General Purpose Equipment: Computers, printers, and other selected items may be appropriate as a direct cost when the Principal Investigator is able to certify that the equipment is necessary for the unique scientific/technical tasks of the specific agreement. For example, a computer that is only used to store and access a large scientific database may be appropriate as a direct cost. A computer used for processing reports, manuscripts,

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correspondence and publications would not be appropriate. Use Justification for Purchase of General Purpose Equipment form located at:
<http://www.is.mines.edu/ora/General%20Purpose%20Equipment%20Form.xls>.

7.4 Membership Dues: Appropriate as a direct charge on an exception basis only: (1) where membership is a mandatory requirement of the specific agreement; or (2) for training/fellowship programs where the membership is authorized for a trainee as part of the trainee’s development/training program; or (3) where the membership is required/included as part of the registration costs for a conference and participation in the conference is directly related to the specific needs of the agreement.

7.5 Office Supplies: Extraordinary costs for office supplies used specifically for the technical/scientific needs of the agreement may be appropriate as a direct cost. For example: Paper, envelopes or computer paper, used as part of a survey mailed to participants for an epidemiological study may be appropriate. (Paper, envelopes or computer paper used as part of the administration of the project or for routine correspondence and publications would not be appropriate.)

7.6 Postage: Extraordinary cost for postage, Federal Express or courier directly related to the scientific/technical needs of the agreement may be appropriate. For example: Cost of shipping project samples to a laboratory or a collaborator for analysis may be appropriate, as would cost for mailing large epidemiological surveys. (Mailing cost for routine correspondence or mailing proposals, manuscripts, or reports would not be appropriate.)

7.7 Subscriptions/Books/Periodicals: Cost may be appropriate as a direct cost when the Principal Investigator is able to certify that the publication is a necessary requirement for the scientific/technical completion of the specific agreement and that it does not benefit other agreements or activities. (Publications that provide a general benefit to research and teaching activities would not be a direct cost.)

7.8 Telephone: The cost of telephone lines may be appropriate for a project requiring extensive telephone surveying where the function of specified staff is to telephone respondents. Cost would only be permitted for the dedicated lines, not for all telephone services supporting the lab or office in which the project is based. (Local telephone charges are not appropriate where the purpose is to provide general telephone accessibility to the staff or a lab).

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Pagers/cellular telephone cost may be appropriate for an individual whose primary task is to travel from location to location to gather data or conduct patient surveys and that person must maintain contact on a continual basis, as part of the specific needs of the agreement. Cost would be allowable only if the pager/cellular telephone is being used solely to support the project. (In the case of an individual who has multiple duties or works on several agreements or where the pager/cellular telephone is not an integral part of the specific tasks associated with the agreement, cost of a pager/cellular telephone would not be appropriate as a direct cost. If the pager/cellular telephone is needed primarily because the person needs to be reachable by staff, such cost may not be directly charged to a sponsored agreement.)

8.0 APPENDIX B: Demonstrating “Unlike Circumstances”

Cost Accounting Standards require consistent treatment of costs in “like circumstances” across an institution. Consequently, “unlike circumstances” must be demonstrated/justified if a cost that is normally considered F&A is to be budgeted charged and reported.

The following arguments cannot be used to demonstrate “unlike circumstances”:

- The sponsor has approved the item without review by the university.
- The department does not have sufficient F&A cost money returned to support projects.
- The sponsor limits or will not pay F&A costs.
- The sponsor is willing to pay for the cost as a direct charge
- The department does not have enough funds to pay for general research supplies