Introduction

In accepting government sponsored projects (grants, contracts, and other types of agreements) Eastern Illinois 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 Eastern faculty (principal investigators), department administrators, and/or grant administrators should be familiar.

This document summarizes regulations the federal government uses to determine whether a cost item may be charged to sponsored project. Eastern complies with these regulations both in constructing a budget for a proposal and in charging expenses to grant accounts. The regulations apply to all sponsored projects funded with federal money or federal flow-through money. Government auditors will compare Eastern’s practices with these regulations when conducting audits of sponsored projects awarded to Eastern.

Responsibility

The fiscal agent of each account is responsible for determining whether expenses are appropriate charges to accounts of grants and other sponsored projects. A fiscal agent with questions about the appropriateness of a charge should consult with the agency that made the award. A grants accountant or the Office of Grants and Research may also be of assistance.

Direct Costs: Definition and List of Criteria

Government Definition of Direct Costs
Direct costs are those costs that can be identified specifically with a particular sponsored project, or that can be directly assigned to such activity relatively easily with a high degree of accuracy.

Summary of Criteria for Determining Appropriateness 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 unwallowable by regulation or grant/contract specific
   award conditions.

**Direct Costs: 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

Government Regulation
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. Specifically, costs of personal services (salaries and benefits) will be allocated on the basis of certified effort percentages. 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

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

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. 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 "Eastern’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.]

**Eastern Illinois 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, since 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 Eastern, 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 Eastern**
At Eastern Illinois 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 Eastern**
At Eastern Illinois 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.]

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.]

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 for budgeting 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 included in the budget justification as 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**

**Government Regulation**
A number of 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 some 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). See OMB Circular A-21 for a list of specific unallowable costs.

**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 or her 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 Eastern.

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 or her 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 federal 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
教学 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 Eastern Illinois University internal approvals
are also required.

Unspent Funds at the end of the Project Period

If the amount of authorized funds is expected to exceed the need of the recipient for the
project period by more than $5,000 or 5% of a Federal award (whichever is greater), the
Principal Investigator is responsible for notifying a grants accountant or the Office of Grants
and Research, who will then notify the Federal agency.

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.

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.]