

Iowa State University
Sponsored Programs Costing Policy
For Awards Subject to OMB Circular A-21 (2 CFR 220)

Office of Vice President for Research
Office of Sponsored Programs Administration
Controller's Department - Sponsored Programs Accounting

Effective: February 17, 2003
Updated: September 17, 2015

I. Introduction

This costing policy applies to ISU federally sourced agreements that were initially awarded prior to December 26, 2014 and did not receive any additional funding increments on or after December 26, 2014. ISU federally sourced agreements awarded or incrementally funded on or after December 26, 2014 are subject to the Uniform Guidance, and the ISU Sponsored Programs Costing Policy For Awards Subject to Uniform Guidance (2 CFR 200) applies.

It is important for Iowa State University to recover the full costs of each individual sponsored project where permitted by the established policies of the funding agency. OMB Circular A-21, Cost Principles for Educational Institutions and the Cost Accounting Standards included in the circular, defines what costs are allowable on federally funded grants, contracts and cooperative agreements (collectively called sponsored agreements). Agreements with non-federal sponsors are also subject to these cost principles if the source of the sponsor's funding is federal (i.e. federal flow-through agreements). These federal regulations require that the same types of costs be treated consistently as either direct costs or indirect costs. Therefore, it is essential to maintain consistency across ISU departments, colleges, centers, and institutes in the way direct and indirect costs are charged.

This ISU Sponsored Programs Costing Policy takes into account the unique needs and requirements of the University's research community and still complies with the requirements of OMB Circular A-21. Future updates to this and other internal policies may be necessary as the federal government issues further modifications and interpretations.

The University delegates considerable authority and responsibility for fiscal compliance to Principal Investigators (PIs) and their departments. This requires the development of significant expertise at the department level and relies heavily on PIs, department heads and fiscal staff to comply with ISU policies and various sponsor rules and regulations.

II. Definitions

Direct Costs

OMB Circular A-21, Section D.1, states:

Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A 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.

A direct cost is considered appropriate when a specific sponsored project gains explicit benefit for a specific programmatic purpose. For example, a PI's salary, when represented by scientific effort on a particular project, is an allowable direct cost to that specific project.

Facilities and Administrative Costs (a.k.a. F&A, Indirect Costs or Overhead Costs)

OMB Circular A-21, Section E.1, states:

F&A costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity.

At educational institutions such costs normally are classified under the following indirect categories: building and equipment depreciation; general and administrative expenses; departmental administrative expenses; sponsored projects administration expenses; operation and maintenance expenses; and library expenses.

Indirect costs are infrastructure costs of the University that support the programs of the institution, including research and other sponsored projects. Examples of indirect costs are maintenance costs, the costs of electricity and heat, accounting services, personnel services, departmental administration, purchasing services, and animal care and use administration.

III. Consistent Treatment of Costs

Consistent treatment of costs is a basic cost accounting principle that is specifically required by OMB Circular A-21 to assure that the same types of costs are not charged to sponsored agreements both as direct costs and as F&A (indirect) costs. All proposals submitted by ISU are to be consistent in the treatment of costs.

Consistency in this context means that costs incurred for the same purpose, in like circumstances, must be treated uniformly either as direct costs or F&A (indirect) costs. Certain types of costs (e.g., salaries of administrative and clerical staff, office supplies, postage) are normally treated as F&A (indirect) costs and cannot be charged directly to federally sponsored projects unless the circumstances related to a particular project are clearly different from the normal operations of the institution.

Example

Postage is normally treated as an F&A (indirect) cost. However, a particular project may have an exceptional need for postage, e.g. the mailing of survey questionnaires is required. As the objectives of the project constitute "unlike circumstances" compared to routine postage requirements, it would be appropriate to charge the project directly for the postage to mail the questionnaires in this case.

Note: the OMB Circulars apply to federally sponsored agreements and federal flow-through sponsored agreements, and costs normally charged as F&A (indirect) costs MAY be charged directly to NONFEDERAL agreements if not prohibited by sponsor policy.

IV. Distribution of Direct Costs Between Two or More Sponsored Projects

OMB Circular A-21 provides two methods for allocating an allowable direct cost to two or more sponsored projects.

OMB Circular A-21, Section C.4.d.(3), states:

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...

A. The Proportional Benefit Rule

The proportional benefit rule applies when it is possible to determine the proportional benefit of the cost to each project. The cost is allocated according to the proportion of benefit provided to each project. For example, the cost of lab supplies might be allocated based upon the quantity used (or planned to be used) on each project.

B. The Interrelationship Rule

The interrelationship rule applies when it is not possible to determine the proportional benefit to each project because of the interrelationship of the work involved. The cost is distributed on any reasonable basis because the proportional benefit cannot be quantified and identified to the individual projects. For example, the cost of lab supplies might be allocated based upon the allocation of employee salaries to each project.

V. Unlike Circumstances*

Costs normally charged indirectly may be charged directly when unlike or unusual circumstances exist. The University relies on the principal investigator and other officials to exercise judgment in identifying situations where "unlike" circumstances exist.

The following is the OMB interpretation (August 8, 2000) that provides guidance on defining the circumstances under which administrative and clerical salaries may be charged directly to federal sponsored agreements in accordance with the provisions of Section F.6.b. of OMB Circular A-21.

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 OMB Circular A-21, Section D.1.—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.

*Please note the ISU procedures in Section VI are to be followed if unlike circumstances exist after a project has started and were not documented in the project's proposal.

The following examples from OMB Circular A-21, Exhibit C, are illustrative of circumstances where direct charging the salaries of administrative or clerical staff may be appropriate.

1. 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.
2. 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).
3. Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
4. Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
5. 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 campus.
6. Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocol; and multiple project-related investigator coordination and communications.

In consideration of the OMB interpretation, the following ISU guidelines are to be used to determine if unlike circumstances exist:

1. Size, nature, and complexity of sponsored projects, although not the final determining factors are, in the aggregate, important considerations in determining unlike circumstances.
2. The activity must be specifically associated with the work of the sponsored project, as either:
 - a. Part of an unusually large or complex activity that requires separate administrative support;
 - OR
 - b. An administrative effort of at least 50 percent FTE is required to complete the specific and distinctive requirements of a particular grant or contract.

3. In instances where a sponsored project has unique requirements for extensive administrative and clerical support, office supplies, postage and/or telecommunications costs substantially beyond that normally provided by ISU departments, such costs may be charged to sponsored agreements as direct costs when:
 - a. The activity cost is required by the project's scope;
AND
 - b. The cost can be accurately identified to the project;
AND
 - c. The cost is identified and properly justified in the sponsored agreement budget; for example, the percent of effort, salaries, and fringe benefits of administrative and clerical positions must be specifically included in the proposal budget and the need for the services is clearly explained in the budget justification;
AND
 - d. The sponsoring agency accepts the cost as part of the project's direct cost budget (i.e., sponsor does not specifically disapprove the cost in the award documents, agency policy handbook, or other notification to the University).

For example:

1. Local telephone services would be allowable under a program requiring telephone surveys.
2. Postage would be allowable for a program requiring surveys by mail.

Other Examples of Unlike Circumstances Justifying Direct Charges

1. Office Supplies - Envelopes used to mail an unusually large number of research questionnaires
2. Office Supplies - Paper, printer toner, etc. for a research lab computer that is only used for research papers and printing of data for the research project
3. Office Supplies - Binders and folders used in a research lab to hold research results
4. Local Telephone Service - A hotline or crisis line that is specifically required by a sponsored project
5. Memberships - A membership in a professional or scientific organization if joining is the only means of obtaining a specific journal or periodical directly related to a sponsored project
6. Journals and Subscriptions - The cost of a journal or subscription may be directly charged if the content is specifically and solely related to the sponsored project

VI. Procedures for Documenting Unlike Circumstances After Award Issuance

Unlike circumstances (i.e. the direct charging to a sponsored project of costs normally considered to be indirect costs) should be anticipated and justified in the proposal budget and budget justification submitted to the sponsoring agency. However, where such costs were not anticipated and justified in the proposal, the department must document how these costs meet the ISU definition of unlike circumstances at the time of expenditure.

The justification prepared by the department must document the same information that would have been provided to the sponsoring agency in the proposal budget and budget justification. It must also explain why the cost was not included in the original budget.

These procedures do not relieve the principal investigator or department of their fiscal responsibility should the costs be disallowed.

Contact Information

If questions, please contact the Office of Sponsored Programs Administration at 294-5225 or Sponsored Programs Accounting at 294-4569.

VII. General Criteria for the Treatment of Costs

A. Direct Costs

The following types of costs should be directly charged to sponsored agreements when they can be specifically identified to the work performed under those agreements.

- **Salaries, Wages and Fringe Benefits:**
 - Faculty
 - Research associates
 - Predoctoral and postdoctoral fellows
 - Technicians, lab assistants, graduate students

- **Specialized Equipment**

- **Travel Costs:**
 - Domestic Travel
 - Foreign Travel

- **Graduate Student Tuition**

- **Materials and Supplies:**
 - Chemicals
 - Laboratory supplies
 - Computer software
 - Drugs
 - Books
 - Uniforms
 - Photographic supplies
 - Tools
 - Animals

- **Subcontracts/Subawards**

- **Other Direct Costs:**
 - Radioactive waste disposal
 - Consulting services
 - Animal care
 - Long distance telephone costs
 - Freight and express
 - Patient care and subject costs

Costs that are normally treated as indirect costs MAY be charged to NONFEDERAL sponsored agreements if permitted by the sponsor's policies/practices or are otherwise approved by the sponsor.

B. Indirect Costs

The following costs are usually treated as indirect costs for sponsored projects subject to OMB Circular A-21. These costs may be treated as direct costs only when unlike circumstances exist and have been justified.

- Salaries of administrative and clerical staff
- Office supplies- especially those used in clerical or support offices where salary is not directly charged to sponsored projects and the administrative salaries do not meet the definition of an unlike circumstance, or office supplies used in faculty offices. Office supplies includes binders, folders, business cards, copy paper, envelopes, paperclips, pencils, pens, scissors, staplers, tape, toner cartridges, etc.
- Postage
- Basic local telephone services on campus - Basic services include phone installation, monthly line charges and ethernet charges
- Cellular phones, pagers and related service charges
- Routine copying charges that cannot be identified with specific projects
- Memberships, journals and subscriptions