

Charging of Direct Costs to Sponsored Projects: Policy

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Last Revised: February 2016

Responsible College Officer

Senior Director Financial Analysis

Responsible Office

Research Accounting

Policy Statement

Weill Cornell Medicine (WCM) expects its faculty, staff and students, when dealing with federal and other sponsored funds, to follow Generally Accepted Accounting Principles (GAAP); comply with all government and sponsor rules and regulations; and follow established standards for determining when it is appropriate to propose and, if approved, directly charge costs to sponsored projects.

Reason for Policy

As a recipient and steward of federal funds, WCM must comply with the standards set forth in the Uniform Guidance concerning the appropriate classification of costs as direct costs. This policy is based on interpretation of federal regulations; however, non-federal sponsors may permit different treatment of costs. Allowability of expenditures on non-federal sponsored projects is determined by the sponsor's terms and conditions.

Who Should Know This Policy

┌ Dean
├ Senior Administration – Vice Provosts, Associate Deans
├ Director, Department Chair, Division Head
├ Faculty
├ Departmental/Divisional Administrators
├ Finance Personnel – Research Accounting, Accounting Services
├ Grants & Contracts Personnel
├ Research Compliance
├ Personnel Research Integrity
├ Personnel
├ All Employees
├ Information Technology
├ Personnel Human Resources
└ Personnel Students

Contacts

Subject	Contact	Phone	Email
Policy questions	Edward C. Walsh	(646) 962-3632	ecwalsh@med.cornell.edu
Accounting questions	Melissa Paray	(646) 962-3653	mep2005@med.cornell.edu

Applicable WCM Policies

- Cost Sharing Policy and Procedures
- Time and Effort Reporting Policy
- Travel and Business Expense Reimbursement Policy and Guidelines
- Procurement Card Program Policy and Procedures
- Cost Transfers on Sponsored Projects Policy

Applicable Federal Regulations & Criteria

The spending of any funds awarded by the federal government to WCM is governed the Uniform Guidance published by the Office of Management and Budget (OMB)

The guiding principles from these federal regulations are summarized here as background for this policy.

General Cost Allowability Criteria

The principles of the Uniform Guidance govern costs that may be charged to or paid, even in part, by federal funds. The Uniform Guidance requires that all costs being charged to the federal government pass the following four tests:

- The cost must be **allowable** under both the provisions of the Uniform Guidance AND under the terms of a specific award. (For those costs specifically designated under the Uniform Guidance as **unallowable** costs, please reference Appendix C).
- The cost must be **allocable**, that is, the expense can be associated to a project

- with a high degree of accuracy.
- The cost must be **reasonable**, that is, the cost reflects what a “prudent person” would pay in a like circumstance.
- The cost must be in **conformance** with limitations and exclusions as contained in the terms and conditions of award including those in the cost principles—varies by type of activity, type of recipient, and other characteristics of individual awards.

Treatment of Specific Types of Costs

Generally, the costs of office supplies, local telephone costs (e.g., monthly equipment/line charges), and salaries and fringe benefits of administrative and clerical staff normally cannot be charged directly to sponsored projects. However, these costs may be included in the proposal budget if the intended use is for project-specific activities that are clearly justified in terms of their relevance to conducting the research. See below for further details.

Examples of costs that may be charged directly to sponsored projects are costs that are required to complete the specific and distinctive requirements of a particular sponsored project, including:

- Office supplies such as: envelopes used to mail an unusually large number of research questionnaires or folders for filing survey responses and/or lab results.
- Local telephone costs required to: conduct surveys, maintain contact with project activities conducted at remote locations, or establish and maintain a hotline or crisis line that is specifically required by the project.
- Data communication and common infrastructure costs may only be charged directly to a sponsored project if it is approved by the agency *and* the charges are appropriate and solely benefiting the project and no other research or academic activities. The direct charging of these services must be specifically budgeted and justified in the grant application or contract proposal and be approved by the awarding agency. Note that approval from the sponsor does not necessarily indicate the charge is an allocable and allowable direct charge on the sponsored project.
- Postage for: shipment of research materials and deliverables to perform the project's scope of work, correspondence with the sponsor and/or project participants, or dissemination of surveys and/or materials produced as a result of the project activities.
- Administrative and clerical salary that is not routine administrative work that benefits multiple activities of the unit. While the Uniform Guidance states that administrative and clerical salaries should normally be treated as indirect (F&A) costs, the Uniform guidance provides further counsel. Specifically, the Uniform Guidance asserts that direct charging these costs may be appropriate if **All** of the following conditions are met:
 - The administrative or clerical services are **integral** to the project. Integral is defined as being essential to the project's goals and objectives, rather than necessary for the overall operation of the institution.
 - The individuals involved can be specifically identified with the project or activity.
 - The salary cost must be explicitly included in the project award budget **OR** have prior written approval from the federal awarding agency.
 - The costs must not also be recovered as indirect (F&A) costs.

Interim direction issued by the NIH suggests that prior approval is not required to rebudget funds for administrative/clerical salaries if all the other Uniform Guidance conditions are met. However,

it is WCM's policy that, in order to mitigate the risk of cost disallowance at any phase of the project (active, close-out or post project audit), any attempts to direct charge administrative/clerical salaries must meet all four criteria outlined in the Uniform Guidance.

The following examples are illustrative of circumstances when the nature of the work performed under a particular sponsored project is directly related to the technical substance of the project and may require extensive amounts of clerical or administrative effort. Direct charging of these expenses may be appropriate:

- Individual(s) collecting data, conducting phone surveys, scheduling visits, preparing manuals and large reports, making travel and meeting arrangements for large numbers of participants, such as conferences and seminars, etc.
 - Individual projects requiring project-specific database management, individualized graphs or manuscript preparation; human or animal protocol, other project-specific regulatory protocols; and multiple project-related investigator coordination and communication.
 - Large, complex programs, such as General Clinical Research 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. On a NIH program project grant, the administrative/clerical effort is documented in the proposal as part of the scope of work, and is approved by the Sponsor.
- The cost of malpractice insurance can be charged directly to a given sponsored project only if it meets the following conditions: it is required by the grant terms and conditions and is for direct patient care that is reported through the central WCM Physician Organization billing system and is a component of the scope of work. In all cases, the Senior Director Financial Analysis must be contacted to review and approve this cost to ensure consistency in the allocation methodology.
 - Equipment purchase
Generally, equipment purchases for either general purpose or special purpose items with a unit value of \$5,000 or greater must have the prior written approval of the federal awarding agency. Similar to the situation described above for administrative/clerical salaries, the NIH has supplemented the Uniform Guidance with interim direction that may allow a waiver of this pre-approval requirement. However, it is WCM's policy that, in order to mitigate the risk of cost disallowance at any phase of the project, any requests to direct charge equipment to the project must receive prior written approval from the federal awarding agency.

If there are any questions on allowability or charging of direct costs regarding these examples or other specific items, contact Research Accounting for assistance.

Roles & Responsibilities

Responsibilities	PI	Dept. Admin	Dept/Div Chair	Finance	OSRA
Initiate non-salary purchases electronically	P	S			
Prepare single source justification for purchases (if necessary)	P	S			
Verify that expenditures meet UG requirements at the time they are requested	P				
Determine and set up payroll on grants with Personnel Action Form	S	P		S	
Maintain local oversight for the project budget	P	S			
Initiate request for rebudgeting and prepare documentation	P	S			
Review rebudgeting requests and either approve them or return them for issue resolution		I	O-L	P	P
Oversee (with respect to assurance) that budget items are in accordance with UG and the cost accounting standards				I	P
Monitor grant transactions for appropriateness and adherence to federal, state and local regulations				P	

KEY
P = PRIMARY RESPONSIBILITY
S = SECONDARY
RESPONSIBILITY O =
INSTITUTIONAL OVERSIGHT
O - L = LOCAL OVERSIGHT
I = PROVIDE INPUT

Forms/Instructions

Purchasing Requisition
 Payment Requisitions
 Transfer of Funds or Expenses Form
 Change of Funding Reallocation Form

Appendices

In support of this policy, the following appendices are included:

Appendix A - Acceptable and Unacceptable Direct Costs

Costs Typically Included as Direct Costs	Costs Typically NOT Included as Direct Costs
<ul style="list-style-type: none"> Salaries and fringe benefits of programmatic personnel who are necessary to meet the goals of the project Scientific and technical equipment (including software, supplies, maintenance agreements and services) Long-Distance Telephone charges Lab Supplies Services <ul style="list-style-type: none"> - Animal care - Consultant Subcontracts Travel 	<ul style="list-style-type: none"> Salaries and fringe benefits of clerical and administrative personnel Memberships Subscriptions, library books, periodicals, etc. Office Supplies General and office equipment Postage (for general business use) Repair & Maintenance (buildings, grounds, building equipment, remodeling, etc.) Telephone (recurring, installation and maintenance), cell phones, pagers Common infrastructure costs, including data communication connections Utilities Equipment Insurance Malpractice Insurance

Appendix B – Examples of Potential Direct Charging

Direct Cost?	Yes/No
Salary Expenses:	
<ul style="list-style-type: none"> Processing purchase orders on a research grant (such as an R01) 	No
<ul style="list-style-type: none"> Processing purchase orders on a center/program project grant (admin effort documented in proposal as part of scope of work) 	Yes
<ul style="list-style-type: none"> Proposal development (writing, editing, copying and mailing proposals) 	No
<ul style="list-style-type: none"> Principal investigator effort to write annual project report (may include next budget year's proposal) 	Yes
<ul style="list-style-type: none"> Data entry (data collected under project scope of work) 	Yes
<ul style="list-style-type: none"> Data entry (financial transactions for a research grant are entered into financial shadow system) 	No
Supplies and/or Services:	
<ul style="list-style-type: none"> Copying costs for copying purchase orders, monthly ledgers 	No
<ul style="list-style-type: none"> Copying costs for annual progress reports 	Yes
<ul style="list-style-type: none"> Mailing costs for shipment of research materials and deliverables if necessary to perform the project's scope of work 	Yes

<ul style="list-style-type: none"> • Copying costs for copying forms to mail out to survey recipients (survey is part of project scope of work) 	Yes
<ul style="list-style-type: none"> • Personal computers 	Yes
<ul style="list-style-type: none"> • Computer set-up costs, common infrastructure costs, access fees, network usage, wireless services 	Yes
<ul style="list-style-type: none"> • Office supplies for general office use 	No
<ul style="list-style-type: none"> • Cost of malpractice insurance only if it is required by the grant terms and conditions and direct patient care that is reported through the central billing system as a component of the scope of work 	Yes

Appendix C - Examples of Unallowable Costs

Costs Specifically Designated as Unallowable Costs by the Uniform Guidance

- Advertising expenses except for employee and subject recruitment
- Alcoholic beverages
- Contingency provision costs
- Certain defense and prosecution of criminal and civil proceedings
- Entertainment costs including social activities and related costs including tickets to events, meals, lodging, rental, transport and gratuities
- Goods and services for personal use
- Insurance against defective workmanship or materials
- Interest, fund raising, and investment costs (excluding third party interest expenses)
- Malpractice insurance that does not involve human subjects
- Membership in any civic or community organization, country club, social or dining club
- Public relations costs
- Selling and marketing costs of products and services
- Student activity costs including intramural activities, student publications, student clubs or other related costs
- Travel/subsistence costs of trustees
- Costs in support of alumni activities
- Bad debts from uncollectible accounts and related legal costs
- Commencement and convocation costs
- Fines and penalties for failure to comply with government laws and regulations
- Housing costs for officers of the institution including depreciation, maintenance, furnishings, utilities, rent, etc.
- Lobbying costs including related costs of legislative liaison activities, attendance at legislative sessions, and information gathering and analysis regarding effect of legislation

Appendix D - Definitions

Term	Definition
Allowable Costs	Costs that are (a) reasonable; (b) allocable to sponsored projects under the principles and methods outlined in UG; (c) given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) conform to any limitations or exclusions set forth in UG or in the sponsored agreement as to types or amounts of cost items.UG.
Cost Allocation	The process of assigning a cost, or group of costs, to a sponsored project or to a particular service or project in reasonable and realistic proportion to the benefit provided.
Direct Costs	Costs that can be identified specifically with a particular sponsored project, primarily research, instruction, or service, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.
Facilities and Administrative (F&A) Costs	Costs 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
Federal Unallowable Costs	Costs identified as unreimbursable by the federal government in the UG or by the specific sponsored project terms and conditions. This term supersedes the term "nonrecoverable cost."
Indirect Costs	See <i>Facilities and Administrative (F&A) Costs</i> .
Reasonable Cost	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 the circumstances prevailing at the time the decision to incur the cost was made.
Sponsored Project	An externally funded activity that is separately budgeted and accounted for and governed by specific terms and conditions. Sponsored projects must be separately budgeted and accounted for subject to terms of the sponsoring organization. Sponsored projects may be in the forms of grants, contracts, or cooperative agreements for research, instruction, and public service activities.