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Memo

Operating Guidance

No. 94-5
March 1, 1994

VICE CHANCELLORS - RESEARCH
VICE CHANCELLORS - ADMINISTRATION
FEDERAL SYSTEMS COMMITTEE
CONTRACT AND GRANT OFFICERS
ACCOUNTING OFFICERS
EXTRAMURAL FUNDS MANAGERS
INTERNAL AUDITORS

Subject: Operating Guidance on OMB Circular A-21 revision affecting departmental direct charging of designated categories of expense

Background

The Office of Management and Budget (OMB) issued revisions to Circular A-21 in July 1993. Among the revisions was a new Section F.6.b. under departmental administration expenses, stating that certain categories of departmental expense -- administrative and clerical salaries, office supplies, postage, local telephone costs, and memberships -- "shall normally be treated as indirect costs." Direct charging of administrative and clerical staff salaries "may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity." An overview of the new language, the Federal motivations underlying it, and its significance to the University of California, was previously provided in the Reply Request Letter dated November 24, 1993. The purpose of this Memo is to provide operating guidance to Campuses on the baseline standards needed to comply with Section F.6.b. of the revised Circular.

Major Project or Activity

An important but unresolved aspect of the new language is the definition of "major project or activity," one of the new criteria for determining the appropriateness of direct charging clerical and/or administrative salaries. OMB, in consultation with the Department of Health and Human Services and the Office of Naval Research, has developed a draft interpretation along the lines suggested by the Council on Governmental Relations on behalf of the higher education community. The definition given in both the previous Reply Request Letter and this Memo is consistent with OMB's draft interpretation, and may be considered as interim operating guidance until further clarification is provided by OMB and/or other Federal agencies. However, at this time there is no reason to believe that the baseline standards contained in this Memo will require significant revision.

Dates of Implementation

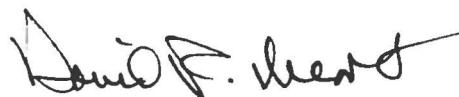
Effective March 1, 1994, all proposal budgets for new, continuation and renewal awards should be prepared in compliance with the new A-21 language. All awards resulting from these proposals should be administered in compliance with the new A-21 language. All awards currently in effect can be administered in accordance with the terms of the existing award until renewed or continued. As of July 1, 1995, all Federal awards regardless of their effective date shall be subject to the new rules. In the case of the San Francisco and Santa Barbara Campuses, because their upcoming indirect cost rate years were negotiated after the A-21 revision, full compliance with the new language should occur no later than July 1, 1994.

Information Clearinghouse

Section F.6.b of Circular A-21 is likely to produce confusion and inconsistency among Federal agencies until a new consensus/equilibrium is reached. In the meantime, as a service to Campuses OP-RAO has offered to be a clearinghouse to exchange information on the impact of the A-21 revisions on Federal proposal reviews and pre- and post-award audits. Campuses may share information they believe would be useful to other Campuses by faxing it to (510) 835-3705, attn: Robert Baum.

Refer: Jorge Ohy
(510) 987-9842

Subject Index: 06, 07
Organization Index: F-005, U-115


David F. Mears
Director
Research Administration Office

Enclosure

bcc: VICE CHANCELLORS- ACADEMIC AFFAIRS (3/8/94)

OPERATING GUIDANCE: DEPARTMENTAL DIRECT CHARGES TO FEDERAL AWARDS

In recent years there has been increased Federal sensitivity to, and scrutiny of, direct charges to research agreements that are "non-technical" in nature, such as clerical support and office supplies. In the July, 1993 revisions to Office of Management and Budget Circular A-21, these concerns passed into regulation. New Section F.6.b. of the Circular reads in part:

The salaries of administrative and clerical staff should normally be treated as indirect costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity. Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as indirect costs.

The underlined categories of cost will be discussed individually below. Principal Investigators intending to direct charge Federal projects for costs in any of the underlined categories should show the cost explicitly in the budget and describe in the budget narrative how it is required to perform the project.

I. Rebudgeting

Federal Demonstration Project and other Federal awards generally permit rebudgeting of costs without prior agency approval where necessary for the effective performance of the project. However, because the underlined cost categories are subject to Federal sensitivity and audit scrutiny, rebudgeting flexibility for these direct costs is very restricted. Under no circumstances is rebudgeting to be used to make a direct charge contrary to Circular A-21 as revised. The general rule is: don't direct charge any of the underlined cost categories unless the cost is disclosed either in the proposal budget or by post-award letter and the agency grants approval either in the award budget or by a separate letter. If the agency gives approval to direct charge an underlined cost category, the amount charged should not substantially exceed (> 25%) the amount approved, unless additional agency approval is obtained. If the need to direct charge an underlined cost category arises after the award, and was not proposed to the agency in the proposal budget and approved by the agency in the award budget, rebudgeting procedures may not be used to make such direct charges without express agency approval, except as provided below for minimal project supplies.

II. Direct Charges Generally

Only those expenses that are allowable according to the OMB Circular A-21 may be charged to Federal awards. To be allowable as a direct charge, an expenditure must be:

- (1) *reasonable and necessary* for the performance of the project under a "prudent person" standard,
- (2) *allocable* based on benefits received in amounts that can be assigned relatively easily with a high degree of accuracy. If the cost is incurred solely to advance the work, the cost may be direct charged in full to the agreement. If the cost is incurred to advance the work and benefits both sponsored agreements and other work, only the proportionate share as determined by the use of a reasonable method may be direct charged.
- (3) *consistently treated* as direct charges to all fund sources in like circumstances and in accordance with institutional policies and practices, and
- (4) *not specifically designated as unallowable* in the Circular or the award.

Allowable costs that are incurred for common or joint objectives, and that cannot be identified specifically with particular sponsored projects relatively easily with a high degree of accuracy, may not be direct charged to Federal awards. Such costs may, however, be chargeable as indirect costs through the application of an indirect cost rate.

III. Salaries (and Fringe Benefits) of Departmental Administrative and Clerical Staff

The new Section F.6.b of OMB Circular A-21 states that administrative and clerical salaries "should normally be treated as indirect costs." This classification presumes that the tasks performed benefit departmental administration needs or activities which are paid for by the Federal government, at least in part, via indirect cost reimbursement. The Federal government does not want to be charged twice, once indirectly and again directly, for departmental administration expenses. However, the Circular also recognizes that direct charging administrative and clerical salaries "may be appropriate" when three criteria are met: (1) a major project or activity (2) explicitly budgets for these costs and (3) the individuals involved can be specifically identified with the project or activity. Here A-21 recognizes that administrative and clerical staff may perform tasks that may be project-specific or in direct support of the scientific or technical work. The interpretation of these criteria is still under discussion between the Council on Government Relations (COGR), the major Federal cognizant agencies, and OMB. The following definitions are consistent both with COGR's position and with a draft Federal interpretation dated January 19, 1994, and should be used as interim operating guidance. If a revision becomes necessary due to the issuance of a significantly different Federal interpretation, a Supplement to this Memo will be issued.

(1) "*Major project or activity*" is differentiated into two cases: (a) "major project," and (b) "activity."

(a) **Major project:** A "major project" is distinguished by order of magnitude in terms of size, volume, complexity, compliance requirements, or duration. Due to the order of magnitude, a discrete quantity of administrative and clerical staff support beyond that available from the department for a normal project is required to support the project.

A major project is often directed toward a range of problems having a central research focus, in contrast to the usually narrower thrust of the traditional research project. A major project generally involves the organized efforts of relatively large groups under the leadership of an established investigator. It is expected that individuals performing clerical and administrative roles on a major project will be direct charged. There may also be cases where an agency specifies clerical, administrative and program management costs to be charged directly.

(b) **Activity:** An "activity" is distinguished by the kind of activity, i.e., where responsibilities carried out by administrative and clerical staff are unique to the award and integral to performing and supporting the scope of work. In such circumstances the administrative or clerical staff are acting more as project personnel than as departmental support, and direct charging of their salary would be proper.

The following examples, offered to DHHS by COGR, provide an illustrative but not exhaustive set of situations qualifying as a "major project or activity."

Large-Scale Data Collection and Analysis -- Many projects involve studies of large populations of subjects, whether of persons (for example in epidemiological or social science studies, clinical trials, counseling and treatment programs, interdisciplinary training and research and retrospective clinical record studies), objects (such as structures in an earthquake-related survey or wetland studies or demonstration projects), or specimens. These may involve data accumulation, entry, tabulation, cataloging and reporting. In these cases it would be appropriate to have dedicated administrative and clerical staff charged directly to the project. Program Projects, General Clinical Research Centers and Primate Center Grants need dedicated clerical and administrative support.

Consortia and Core Support -- Many grants and contracts involve assembling and managing consortia of other participants. These awards are for the express purpose of providing clerical and administrative support for other larger research awards.

Conference and Communication Grants -- Many grants and contracts that involve making travel and meeting arrangements for large numbers of participants require dedicated administrative and clerical support, as do projects that have as their principal focus the production of manuals and large reports.

Remote Projects and Equipment Fabrication Projects -- Dedicated administrative and clerical support is needed where normal departmental administration is geographically inaccessible, such as on seagoing research vessels, or radio astronomy projects located thousands of miles from campus, or projects at other remote locations. Unusual administrative or clerical support is needed where the principal purpose of the award is for fabrication of research equipment or research facilities.

2. "*Explicitly budgets for*" means that the administrative or clerical salary is identified as such in the proposal budget and described in the budget narrative.
3. "*Specifically identified*" means that the administrative and clerical support must be readily identifiable to a sponsored project with a high degree of accuracy, and the individuals involved must document their direct effort in the same manner as technical and scientific staff working directly on Federal awards.

IV. Office Supplies and Postage

Office supplies and postage are presumed by A-21 to be required for operation of University and departmental functions and therefore have been treated as an indirect cost. However, where office supplies and postage are required in more than minimal amounts to perform the project work, e.g. large surveys, we recommend that specific purpose descriptions and labels be used, e.g. survey costs or survey supplies, in lieu of the more general terms office supplies and postage. This more specific language clarifies that the cost is part of the project work, is a project supply and may therefore properly include direct charges for paper, duplicating, postage, and handling for this project purpose. These direct project costs may be charged if they are described in the proposal budget and the agency approves. If a need for "project supplies," e.g., paper, postage or duplicating to perform project work arises after the award is made and does not exceed \$500, rebudgeting procedures may be used to make the direct charges after the project need is documented. Only those supplies actually used in the performance of the sponsored project may be directly charged. If the amount exceeds \$500, agency approval is required.

V. Telephone Charges

Long-distance toll charges that are reasonable and necessary to the performance of a project may be charged directly by identifying them individually to the project they benefit.

The basic telephone line charge and local calls should not be charged directly to Federal awards, except in rare circumstances when a separate, dedicated telephone line is necessary solely for the performance of a sponsored project. If a dedicated line is needed for a project, the line and any dedicated equipment charges must be shown in the proposal budget with justification and submitted to the agency for approval. The agency may or may not approve the cost. Unless the agency expressly approves the

cost, either in the award budget or by separate approval if not included in the award budget, the cost should not be direct charged. Rebudgeting procedures may not be used to direct charge basic telephone service and local calls without express agency approval.

VI. Memberships

The revision to A-21 states that memberships shall normally be treated as indirect costs. A-21 Section J.28 refers to "*the institution's membership in business, technical and professional organizations*" (italics added). Although A-21 does not expressly address *individual* memberships in professional organizations, the Public Health Service Policy Statement does:

Dues - Allowable for organizational membership in professional organizations or societies if it can be shown that such membership is necessary to accomplish the objectives of the project... Payment of dues for an individual's membership in a professional organization is allowable as a fringe benefit or an employee development cost if paid according to an established institutional policy consistently applied regardless of the source of funds.

The Federal costing policy principle is that memberships are a professional development cost which is not a Federal responsibility unless the institution consistently treats memberships as a fringe benefit; UC does not have such a policy at this time. If an individual membership can be shown to directly benefit or is required to perform a project, the cost may be included in the budget with justification and submitted to the agency for approval. The agency may or may not approve the cost. Unless the agency expressly approves the cost, either in the award budget or by separate approval if not included in the award budget, the cost should not be direct charged. Rebudgeting procedures may not be used to direct charge dues for memberships without express agency approval.

Memo

Operating Guidance

No. 94-5,
Supplement 1
November 3, 1994

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EXTRAMURAL FUNDS MANAGERS
INTERNAL AUDITORS

Subject: Supplemental Operating Guidance on departmental direct charging of designated categories of expense to federal awards

Background

Contract and Grant *Memo* No. 94-5 provided operating guidance for Campuses to comply with Office of Management and Budget (OMB) Circular A-21, Section F.6.b., concerning the costing treatment of certain categories of expense incurred by academic departments and organized research units. Since the issuance of that *Memo*, two federal interpretations of Section F.6.b. have been issued. The first was a memorandum from OMB to federal agencies dated June 2, 1994, subsequently amended and reissued July 13, 1994. Both versions of the OMB document were distributed to Campuses via the Federal Systems Committee. The second federal interpretation appeared in the National Institutes of Health (NIH) *Guide* on September 23, 1994, a copy of which is attached.

OMB Interpretation of F.6.b.

Contract and Grant *Memo* No. 94-5 took into account the major features of the June 2 OMB memorandum. The revision of July 13 added the following example of circumstances where direct charging the salaries of administrative or clerical staff may be appropriate:

Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocol, IRB preparations and/or other project-specific regulatory protocols; and multiple project-related investigator coordination and communications.

NIH Interpretation of F.6.b.

The first half of the NIH notice reiterates the July 13 OMB memorandum; the latter half gives specific NIH implementation. Highlights of the NIH implementation are as follows:

- * NIH is implementing F.6.b. for competing grants & cooperative agreements effective with budget period start dates on or after October 1, 1994.
- * F.6.b. implementation will not affect committed levels for noncompeting awards.
- * Prior approval from the NIH awarding office is not required to rebudget funds to directly charge administrative and clerical salaries when the circumstances of the project are consistent with the NIH/OMB criteria and examples.
- * F.6.b. implementation will not affect the peer review of grant applications.

Impact on University Guidance

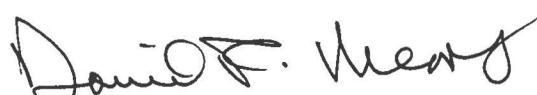
The guidance previously given in Contract and Grant Memo No. 94-5 is consistent with the OMB and NIH interpretations of F.6.b., with the following clarifications:

Major Project or Activity: The OMB memorandum may be regarded as an authoritative interpretation of Section F.6.b. applicable to all federal agencies. Campuses may make use of OMB-provided examples, including the one cited above, to satisfy the "major project or activity" criterion for directly charging administrative or clerical salaries.

Rebudgeting (NIH grants and cooperative agreements only): The University guidance generally requires express agency approval for rebudgeting of funds to directly charge administrative or clerical salaries, office supplies, postage, local telephone costs and memberships. Rebudgeting on NIH grants and cooperative agreements constitutes an exception to this general rule, since prior NIH approval for rebudgeting is not required when the circumstances of the project are consistent with the NIH/OMB criteria and examples for direct charging of clerical and administrative salaries.

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Subject Index: 06, 07
Organization Index: F-005, U-115



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**TREATMENT OF ADMINISTRATIVE AND CLERICAL SALARIES UNDER NIH
GRANTS AND COOPERATIVE AGREEMENTS AWARDED TO
EDUCATIONAL INSTITUTIONS**

NIH GUIDE, Volume 23, Number 34, September 23, 1994

P.T. 34; K.W. 1014006

National Institutes of Health

In July 1993, OMB Circular A-21, "Cost Principles for Educational institutions," Section F.6.b., was revised to define the criteria for charging salaries of administrative and clerical staff to Federally sponsored grants and cooperative agreements. This revision clarified 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 that is significantly greater than the routine level of such services provided by academic departments. The charging of these costs directly would need to meet the general criteria for direct charging in 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 these services would need to be justified to the satisfaction of the awarding agency in the grant or cooperative agreement application.

Some examples of circumstances where direct charging the salaries of administrative or clerical staff may be appropriate are as follows:

- 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 that 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 where the 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 seagoing research vessels, radio astronomy projects, and other research field sites that are remote from the campus.

- Individual projects requiring significant amounts of project-specific database management; individualized graphics or manuscript preparation; human or animal protocol, IRB preparations and/or other project-specific regulatory protocols; and multiple project-related investigator coordination and communications.

These examples are not exhaustive nor are they intended to imply that charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples above. Where direct charges for administrative and clerical salaries are made (as with other administrative type costs, e.g., telephones, postage, books and journals), care must be exercised to assure that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities. This should be accomplished through a "Direct Charge Equivalent" or other mechanism that assigns the costs directly to the appropriate activities.

NIH Implementation

For those institutions subject to OMB Circular A-21, the NIH will implement the revision effective with budget period start dates on or after October 1, 1994, for competing grants and cooperative agreements. For noncompeting grants and cooperative agreements, the NIH will not make any adjustments to the committed level, nor will future year commitments be adjusted. Nonetheless, the principles of A-21 address the appropriate allocation of these costs with implementation based on the negotiated indirect cost rate agreement in effect for each institution. Thus, grantee institutions that have negotiated indirect rates based on the revised principles contained in Section F.6.b may not directly charge administrative or clerical salaries when inconsistent with the Circular, even though these costs may not have been deleted from the noncompeting award.

This revision also affects any postaward rebudgeting of funds for the purpose of charging administrative or clerical salaries. Where grant or cooperative agreement applications do not anticipate the need to directly charge administrative and clerical salaries, institutions may rebudget funds, without awarding office prior approval, to cover these costs when consistent with the criteria and examples described above. For example, administrative or clerical salaries not identified in the application could be charged to the Training Related Expenses associated with institutional National Research Service Awards (T32) when the activity involves a large amount of tracking and completion of forms directly related to the purpose of the grant.

The implementation of this revision will not have any impact on the peer review of grant applications. Reviewers will continue to base any recommended budget reduction on whether the cost requested is warranted or justified for the project. Reviewers should not recommend deletion of requested administrative and clerical staff salary support based solely on the provisions contained in Circular A-21. The awarding unit staff will determine, in accordance with A-21, whether or not the costs are allocable as a direct cost under the particular project.

INQUIRIES

Questions should be addressed to the awarding agency's Grants Management Officer when it is unclear whether or not administrative or clerical staff salaries may be charged directly.