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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.

1. 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.