Module 4: Administrative Cost

Learning Objectives

✓ Understand the Definition of Administrative Costs
✓ Understand the Definition of a Major Program
✓ Understand the Recognized Examples of Major Programs
✓ Understand Agency Specific Guidance
✓ Understand Howard's Direct and Indirect Cost Charging Policy
✓ Understand the responsibilities of the PI and Department
Summary of the PI Certification Program

- Program that will **ensure** that principal investigators **are aware of and follow** the research policies and procedures of the University.
- Personnel from all units related to grants and contracts **will be required to attend training**, and;
- Principal Investigators **will be made aware that failure to comply with regulations** **will result in the recommendation of sanctions** by the Research Compliance Office.
- Research Education and Technical Assistance section within the Research Compliance Office, Sr. VP for Research and Compliance
Module 4: Administrative Cost

Summary of the PI Certification Program

- There are **8 required modules** with other supplementary modules to be developed.
  - Module 1: Overview of the University Environment
  - Module 2: Cost Principles
  - Module 3: Cost Sharing
  - Module 4: Administrative Cost
  - Module 5: Direct Costs
  - Module 6: Property Management
  - Module 7: Cost Transfers
  - Module 8: Project Monitoring
Howard Responsibilities…
- “…validate that **timely and appropriate corrective actions are implemented** to address all audit report recommendations.”

In order to avoid…
- “If such an evaluation discloses that Howard has not implemented actions to establish effective management control over NSF grant funds, **we recommended that NSF withhold additional funding until appropriate corrective actions are instituted.”**

NSF Responsibilities…
- “Resolution shall be made **within a maximum of six months** after issuance of a final report…”
Definition of Administrative Costs

- The following guidelines apply to the determination of departmental administrative costs as **direct or F&A costs**.
- “In developing the departmental administration cost pool, special care should be exercised to ensure that costs incurred for the **same purpose in like circumstances are treated consistently** as either direct or F&A costs. For example:
  - salaries of technical staff,
  - laboratory supplies (e.g., chemicals),
  - telephone toll charges,
  - Animals & animal care costs,
  - computer costs, travel costs, and
  - specialized shop costs
- **shall be treated as direct cost** wherever identifiable to a particular cost objective.

Source: Office of Management and Budget, Circular No. A-21
http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html
Definition of Administrative Costs (cont.)

- The **following guidelines** apply to the determination of departmental administrative costs as **direct or F&A costs**
- The salaries of administrative and clerical staff should be treated as F&A 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 F&A costs

**Source:** Office of Management and Budget, Circular No. A-21
http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html
Definition of a Major Project

• "Major project" is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments.

• “…same purpose in like circumstances are treated consistently.”

Source: Office of Management and Budget, Circular No. A-21
http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html
Recognized Examples of a Major Project

- 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 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).
- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.

Source: Office of Management and Budget, Circular No. A-21
http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html
Recognized Examples of a Major Project (cont.)

- Projects whose **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 research vessels, radio astronomy projects, and other research fields sites that are remote from campus
- Individual projects **requiring project-specific database management**; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communications
Recognized Examples of a Major Project (cont.)

• These examples are **not exhaustive nor are they intended to imply** that direct charging of administrative or clerical salaries would **always be appropriate for the situations** illustrated in the examples.

• The examples **would be appropriate when** the costs of such activities are **incurred in unlike circumstances**, i.e., the actual activities charged direct are not the same as the actual activities normally included in the institution's facilities and administrative (F&A) cost pools.

• “…same purpose in like circumstances are treated consistently.”
Case Study Example


• “The Audit objective was to determine whether the University had claimed reimbursement for administrative and clerical expenses as direct costs to grants, contracts, and other agreements with HHS components in accordance with applicable Federal regulations.”

Source: HHS OIG Audit Report
Duke University – 2009
Case Study Example

- They performed two samples; one consisting of 114 charges for "administrative and clerical salaries" and the second sample consisting of 120 charges for "other administrative" costs, of which they estimate that the University claimed $2.4 million in unallowable charges as direct costs to grants, contracts, and other agreements during FYs 2003 and 2004.

- The IG's audit methodology consisted of selecting and testing two statistical samples, then projecting the results of the statistical samples across the University, and computing the F&A related to the unallowable direct costs and also projecting the results University wide.

Source: HHS OIG Audit Report
Duke University – 2009
Case Study Example

- The draft audit report recommends that the University provide a refund ($1.6M) to HHS that is over 40 times the aggregate amount of the disallowed charges, which is based on the extrapolation of the results of the auditors' two samples.
- The IG also noted that although the University had formal policies and procedures, the results of their audit showed that those policies were not always effective and recommended the University revise its policies as needed to comply with Federal requirements.
Case Study Example

- The University disagreed with the IG's recommendation, citing that "While the University's policies and procedures were generally effective, some University employees did not always comply with them."

- The University partially agreed that some of the questioned costs were not supported with documentation, it stated that most of the questioned costs were allowable and that the Inspector General (IG) had not appropriately applied the allowability standards.

- The OIG revised the total amount recommended for recovery from $2.4 million to $1.6 million.

- A settlement was reached in July 2009 in the amount of $1.6 million.

Source: HHS OIG Audit Report
Duke University – 2009
Agency Specific Guidance – NIH

- Principles for determining the allowability of costs charged to Federal grants, contracts, and other agreements with the University and other educational institutions are set forth in Office of Management and Budget (OMB) Circular A-21 (the Circular).
- These cost principles apply both to direct costs, the expenses which are incurred solely for the performance of a particular project or projects, and to Facilities and Administrative (F&A) costs, the indirect expenses that are incurred for common or joint objectives of the institution and which, therefore, cannot be readily and specifically identified with a particular project or projects.

Source: Review of Administrative and Clerical Costs at Duke University
Agency Specific Guidance – NIH (cont.)

- In accordance with section C.4.d.1 of the Circular, each college or university is responsible for ensuring that costs charged to Federal grants, contracts, and other agreements, both direct costs and F&A costs, are allowable under those cost principles.

- Of the 114 charges in our sample of administrative and clerical salaries, we accepted 79 charges with a total value of $332,267. In these instances, the University provided sufficient documentation to show that the involved grants, contracts, or cooperative agreements qualified as major projects and that the administrative and clerical support being charged directly was beyond the level of support normally required.
Agency Specific Guidance – NIH (cont.)

- However, we concluded that the University had not adequately documented that the other 35 charges in our sample, with a total value of $17,829, were allowable in accordance with the requirements of the Circular.
- The University’s project files contained no documentation that the involved grants, contracts, or other agreements met the definition of “major projects.”
- Further, the University provided no persuasive evidence that the nature of the work performed on the projects, or any other circumstances, justified any unusual degree of administrative and clerical support to accomplish project objectives.

Source: Review of Administrative and Clerical Costs at Duke University
Agency Specific Guidance – NIH (cont.)

• The cost proposals, technical proposals, award documents, and other materials contained in the University’s project files contained no evidence that any of these grants should have been charged for administrative and clerical support.

• Further, for these 35 charges, our requests for additional information from the University’s Office of Sponsored Research and the involved principal investigators produced no persuasive evidence that direct charges for administrative and clerical salaries were justified.

Source: Review of Administrative and Clerical Costs at Duke University
Agency Specific Guidance – NSF

- **In most circumstances**, particularly for institutions of higher education, salaries of administrative or clerical staff are included as part of indirect costs (also known as Facilities and Administrative Costs (F&A) for Colleges and Universities).

- Salaries of administrative or clerical staff **may be requested** as direct costs for a project requiring an extensive amount of administrative or clerical support and where these costs can be readily and specifically identified with the project with a high degree of accuracy.

Source: Grant Proposal Guide, Proposal Preparation Instructions
http://www.nsf.gov/pubs/policydocs/papp/gpg_2.jsp#IIC2g
Agency Specific Guidance – NSF (cont.)

- Salaries for administrative or clerical staff shall be budgeted as a direct cost only if this type of cost is consistently treated as a direct cost in like circumstances for all other projects and cost objectives.
- The circumstances for requiring direct charging of these services must be clearly described in the budget justification.
- Such costs, if not clearly justified, may be deleted by NSF.
- See OMB Circular A-21 (2 CFR Part 220), for examples of where direct charging of administrative salaries may be appropriate.
Howard Direct and Indirect Cost Charging Policy

- The Direct and Indirect Cost Charging Policy outlines how sponsored research expenses are budgeted and charged to projects at Howard University. Howard University personnel (i.e. Principal Investigators/Project Directors (PI/PD), Deans, Department Chairs, Budget administrators and department staff) should use this policy as a guideline when budgeting and charging direct and indirect costs to sponsored research.

- When determining allowability of costs charged directly to a project and/or charged to an appropriate department account, Howard personnel, PIs/PDs and department staff are responsible for understanding this policy and relevant external regulations.
Howard Direct and Indirect Cost Charging Policy (cont.)

- Indirect costs at Howard University are charged to a grant by means of the F&A rate (see Facilities and Administrative Rate section of this document).
- Therefore, charging an F&A cost as a direct cost is unallowable as Howard University would be charging a sponsor twice for the same expense.

http://ovprc.howard.edu/resources/policies.html
## Major University Functions

### COLLEGES AND UNIVERSITIES RATE AGREEMENT

**BIN #:** 53-0204707  
**DATE:** November 30, 2009  
**FILING REF.:** The preceding Agreement was dated September 5, 2006

**INSTITUTION:** Howard University  
2400 Sixth Street, N.W.  
Washington, DC 20059

The rates approved in this agreement are for use on grants, contracts and other agreements with the Federal Government, subject to the conditions in Section III.

### SECTION I: FACILITIES AND ADMINISTRATIVE COST RATES

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**Source:** Colleges and Universities Rate Agreement Between Howard University and DHHS – Dated 11/30/2009
AGREEMENT DATE: November 30, 2009

SECTION III: GENERAL

A. LIMITATIONS:
The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions:
(1) Only costs incurred by the organization were included in its facilities and administrative cost pools as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as facilities and administrative costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government.
Howard Direct and Indirect Cost Charging Policy (cont.)

• However, there are times when it is allowable to charge costs directly to a grant that are normally considered F&A costs. Justification for these types of charges must be well documented by the person incurring the cost. Examples of circumstances where direct charging of costs normally considered F&A costs are appropriate include:
  – Projects that require extensive data collection, accumulation, analysis, and/or cataloging
  – Projects that require preparation and production of manuals, large reports, and books to meet the objectives of a specific sponsored project
  – Projects designated as off-campus and are charged the off-campus F&A Cost rate; for example, off-campus projects are allowed to have rent and utilities directly charged

http://ovprc.howard.edu/resources/policies.html
Howard Direct and Indirect Cost Charging Policy (cont.)
Examples of F&A Exceptions on Direct Costs:

- **Postage/Photocopies:** These expenses are only allowable direct charges to a sponsored project if it is documented that there is a direct benefit to the project (e.g., if a survey is being conducted as part of a project, the photocopy and mailing expenses are allowable direct charges).

- **Office Supplies:** These expenses only are allowable direct charges to a sponsored project if it is documented that there is a significantly greater amount required for a project (e.g., if a large number of compact discs need to be purchased to store data).
Howard Direct and Indirect Cost Charging Policy (cont.)
Examples of F&A Exceptions on Direct Costs: (cont.)

• **Meetings and Conferences:** Cost of meetings and conferences, whose primary purpose is the dissemination of technical information, are allowable charges to a sponsored project, if it is detailed in the proposal as well as provided for in the awarded budget and directly benefits the project.

• This list is not exhaustive. There are other examples in the policy.
Howard Direct and Indirect Cost Charging Policy (cont.)
Examples of F&A Exceptions on Direct Costs: (cont.)

- When exceptional circumstances exist, the PI/PD should request a **Cost Accounting Standards (CAS) exception** from RFA-OSP/GCA (or other unit to be determined in the university’s reorganization of research administration).
- If RFA-OSP/GCA determines that the **circumstances are significantly different** from the assumptions **used to develop** the university’s F&A rate, it will approve the CAS exception.
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University F&A Rate Development

COMPONENTS OF PUBLISHED FACILITIES AND ADMINISTRATIVE COST RATE

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Source: Colleges and Universities Rate Agreement
Between Howard University and DHHS – Dated 11/30/2009
Howard Direct and Indirect Cost Charging Policy (cont.)
Examples of F&A Exceptions on Direct Costs: (cont.)

• **ALL** of the following conditions **must be met** to justify a CAS exception:
  – The project has a special need for the item or service beyond the level of services that are normally provided by academic departments
  – The cost can be specifically identified to the work conducted under the project and is appropriately documented
  – The cost is specified in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal OR the Grants Management Specialist or Contracting Officer has given prior written approval for the cost as a direct charge item
  – The sponsoring agency accepts the cost as part of the project’s direct cost budget (i.e., does not specifically disapprove the cost in the award or other notification to the University)

http://ovprc.howard.edu/resources/policies.html
Case Study Example

• “… the University agreed to continue the process of revising its policies, procedures, training, monitoring, and other internal controls as needed to ensure that the University remains fully compliant with applicable Federal criteria.”

• “Further, the University expressed that throughout the entire audit period they had detailed policies in place governing the direct charging of administrative costs, which complied with federal requirements and several internal controls designed to promote compliance with the published policies.”

• “While the University's policies and procedures were generally effective, some University employees did not always comply with them.”
Responsibilities of PI and Department

- **Principal Investigator/Project Director (PI/PD) and department administrator:** It is the responsibility of each PI/PD to use funds in a manner consistent with sponsor regulations and Howard University policies. This includes understanding what costs are allowable on sponsored projects, and determining if expenses are charged directly to a sponsored project or charged to a non-sponsored project.
- PIs/PDs and department administrators are responsible for understanding and following sponsor, Howard University, and Federal guidelines in order to ensure that costs are appropriately and consistently budgeted and properly applied to sponsored projects.

http://ovprc.howard.edu/resources/policies.html
Module 4: Administrative Cost

Helpful Links, Materials and Other Resources

  http://ovprc.howard.edu/resources/policies.html

• Office of Management and Budget, Circular No. A-21
  http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html

• Office of Management and Budget, Circular No. A-110
  http://www.whitehouse.gov/omb/rewrite/circulars/a110/a110.html

• HHS OIG Audit Report, Duke University – 1/2009

• Grant Proposal Guide, Proposal Preparation Instructions
  http://www.nsf.gov/pubs/policydocs/papp/gpg_2.jsp#IIIC2g