Principal Investigator Certification Program
Module 5: Direct Cost

Learning Objectives

✓ Understand the Definition of Direct Costs
✓ Understand Agency Specific Examples
✓ Review the Definition of Allowability
✓ Review the Definition of Consistency
✓ 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 5: Direct 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 Costs
  - 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 Direct Costs

- 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

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

- 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.
- **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 Direct Costs (cont.)

• Identification with the sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from F&A costs of sponsored agreements. Typical costs charged directly to a sponsored agreement are:
  – the compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs to the extent they are consistently treated, in like circumstances, by the institution as direct costs;
  – the costs of materials consumed or expended in the performance of the work; and other items of expense incurred for the sponsored agreement, including extraordinary utility consumption.
Definition of Direct Costs (cont.)

– The cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be included as direct costs of sponsored agreements, provided such items are consistently treated, in like circumstances, by the institution as direct costs … and are charged under a recognized method of computing actual costs, and conform to generally accepted cost accounting practices consistently followed by the institution.
Agency Specific Examples - NSF

Source: NSF Budget Template – Demo/Download
### Module 5: Direct Cost

**Agency Specific Examples – NSF (cont.)**

![Direct Cost Table](https://www.fldemo.nsf.gov/servlet/gov.nsf/fastlane.proposal.budget.SpreadSheetSupport)

**Source:** NSF Budget Template – Demo/Download

Module 5: Direct Cost

Agency Specific Examples – NIH

Developing Your Budget

On This Page:
- Cost Considerations
- Budgets: Getting Started
- Allowable direct vs. allowable F&A costs
- Modular vs. Detailed Budgets
- Modular Budgets
- Detailed Budget: Personnel (Sec A & B)
- Detailed Budget: Equipment, Travel, and Trainee Costs (Sec C, D, and E)
- Detailed Budget: Other Direct Costs (Sec F)
- Consortiums/Subawards
- Understanding the Out Years
- Other resources

As you begin to develop a budget for your research grant application and put all of the relevant costs down on paper, many questions may arise. Your best resources for answering these questions are the grants or sponsored programs office within your own institution, your departmental administrative officials, and your peers. They can answer questions such as:

- What should be considered a direct cost or indirect cost?
- What is the fringe benefit rate?
- What is the graduate student stipend rate?
- What Facilities and Administrative (F&A) costs rate should I use?

Below are some additional tips and reminders we have found to be helpful for preparing a research grant application, mainly geared towards the SF424 (R&R) application. (Note: these tips do not supersede the budget instructions found in the relevant application instruction guides: http://grants.nih.gov/grants/forms.htm).

Cost Considerations
An applicant’s budget request is reviewed for compliance with the governing cost principles and other

Source: DHHS / NIH Office of Extramural Research
http://grants.nih.gov/grants/developing_budget.htm
Agency Specific Examples – NIH (cont.)

• **Detailed Budget: Equipment, Travel, and Trainee Costs (Sections C, D, and E)**
  – Equipment:
  – Travel:
  – Trainee Costs:

• **Detailed Budget: Other Direct Costs (Section F)**
  – Materials and Supplies:
  – Animal Costs:
  – Publication Costs:
  – Consultant Services:
  – ADP/Computer Services:
  – Alterations and Renovations
Module 5: Direct Cost

Agency Specific Examples – NIH (cont.)

PHS SF424 (R&R) Adobe Forms Version B Application Guide

4.7.1 Section A and B

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Module 5: Direct Cost

Agency Specific Examples – NIH (cont.)

U.S. Department of Health and Human Services
Public Health Service
Grant Application (PHS 398)

Source: DHHS / NIH Office of Extramural Research
http://grants.nih.gov/grants/funding/phs398/phs398.html
Case Study Example

- “The objectives of our audit engagement were to determine if: 1. Costs charged to the NSF awards by NWIC are \textit{allowable, allocable, and reasonable} in accordance with applicable Federal cost principles and NSF award terms and conditions; and 2. The awardee’s systems of \textit{internal controls are adequate} to properly administer, account for, and monitor its NSF awards in compliance with NSF and Federal requirements.”

- To achieve our audit objectives, we examined, on a test basis, \textit{evidence supporting the amounts claimed} … However, significant amounts of \textit{documents were missing and unavailable} as explained in the Summary of Audit Results Section of this report. Consequently, \textit{we were unable} to test significant portions of claimed costs necessary to meet our objectives.
Case Study Example

• “NWIC’s management indicated there was an overall lack of knowledge of federal and NSF award requirements at the time the awards were performed.”

• “As a result, NWIC was unable to ensure that NSF funds were scrutinized for allowability of costs or used for their intended purposes.”

• “Further, the lack of documentation and inadequate policies and procedures to timely and accurately account for and report on the status of NSF funds creates a high risk that fraud and/or abuse could occur and not be detected.”

• “We … questioned the entire $1,115,306 in direct costs claimed by NWIC for the three awards.”
Case Study Example

• “We believe these material internal control weaknesses and other issues identified during the audit are systemic and are likely to affect ongoing and future NSF awards.”

• “Accordingly, NSF should recognize NWIC as a high risk grantee under its Risk Management Program and take immediate steps to ensure that NWIC institutes internal controls that ensure that all costs claimed to the NSF awards are properly and accurately accounted for in its accounting system and are supported with adequate documentation.”

• “In addition, future awards to NWIC should not be made until NSF has verified that NWIC has implemented corrective actions on these control deficiencies.”
Allowable, Allocable and Reasonable

• The **tests of allowability** of costs under these principles are:
  – they must be **reasonable**;
  – they must be **allocable** to sponsored agreements under the principles and methods provided herein;
  – they must be given **consistent** treatment through application of those generally accepted accounting principles appropriate to the circumstances; and
  – they must **conform to any limitations or exclusions** set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

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

- CAS 9905.501 -- Consistency in estimating, accumulating and reporting costs by educational institutions
- The purpose of this standard is to ensure that each educational institution's practices used in estimating costs for a proposal are consistent with cost accounting practices used by the educational institution in accumulating and reporting costs
- The consistent application of cost accounting practices will facilitate the preparation of reliable cost estimates used in pricing a proposal and their comparison with the costs of performance of the resulting sponsored agreement
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.)

- Direct Costs are costs that are clearly allocated to a project. These costs are typically itemized in the project budget. Direct costs include, but are not limited to, the following:
  - Personnel (faculty, staff, postdoctoral fellows, graduate students, undergraduate students, etc.)
  - Fringe benefits
  - Consultants
  - Stipends and Tuition
  - Travel
  - Equipment
  - Materials and supplies
  - Animal costs
  - Subcontracts (and associated subrecipient F&A costs)
  - Patient care costs
  - Publication costs

http://ovprc.howard.edu/resources/policies.html
Howard Direct and Indirect Cost Charging Policy (cont.)

**Personnel costs** are costs incurred for the personnel that expend time and effort on sponsored projects. If allowable, funds to cover the cost of time spent on a project are requested from the sponsor. If the sponsor does not allow these funds, the time can be contributed or cost-shared. PIs/PDs and department staff should review and understand sponsor policies regarding allowable costs prior to spending. Personnel may be appointed to and paid from projects by either a release-time appointment (committed effort) or a direct-project appointment (persons hired specifically for the project).

**Significant Personnel Appointments Associated with Sponsored Projects**

**Principal Investigator/Project Director (PI/PD):** The PI/PD has overall responsibility for the project. The PI/PD’s effort/time commitment is clearly defined in the proposal.

**Co-investigator and collaborator:** These are other investigators associated with the project. The percent of the project handled by the co-investigators and collaborators should be defined in the grant or contract proposal.

**Postdoctoral/predoctoral appointment:** Howard University has no pay scale for postdoctoral appointments. In the event that a person is awaiting appointment, a reasonable salary is proposed. Reasonableness is determined by reviewing departmental guidelines or appropriate external resources, such as the NIH Grants Policy Statement. The individual is considered an employee of
Howard Direct and Indirect Cost Charging Policy (cont.)

**Unacceptable Direct Charging Practices:**
The following practices are inappropriate for charging direct costs to a sponsored project:

- Shifting costs to other sponsored projects in order to meet budget or funding deficiencies
- Shifting costs to other sponsored projects to avoid sponsor restrictions
- Assigning costs to projects based on remaining balance, such as:
  - Assigning large equipment expenditures at the end of a project
  - Increasing salary expenses on a project with an available balance when it is not consistent with the actual effort expended
- Charging costs incurred for multiple projects or functions to several sponsored projects when there is difficulty determining the relative benefit of the cost to each sponsored project (see Charging Costs to Multiple Projects below)
- Charging an expense exclusively to one award when the expense was used for other project activities (see Charging Costs to Multiple Projects below)
- Rotating charges among projects without establishing that the rotation schedule accurately reflects the relative benefit to each project during that specified period
- Charging the budgeted amount (in contrast to charging an amount based on actual costs)
- Assigning charges to an award before the cost is incurred (with the exception of deposits)
- Assigning charges that are part of the normal administrative support for awards (e.g. proposal preparation, accounting, payroll)

**Source:** HU Policy 600-015 Direct and Indirect Cost Charging Policy – 4/2007
http://ovprc.howard.edu/resources/policies.html
Case Study Example

• The audit covers the period September 1, 2000 to June 30, 2007, and encompasses $57,708,044 of direct NSF funded costs and $16,587,727 of cost sharing claimed by U-M.

• U-M was chosen for an audit because of the high dollar value and number of its NSF awards, and because of the collaborative nature of many of those awards.

• Overall, the auditors determined that except for $1,604,713 of questioned NSF funded costs (approximately 3% of total claimed costs) and $136,263 (less than 1% of cost sharing claimed) of at-risk cost sharing, the costs claimed by the U-M on its Federal Financial Reports (FFRs) appear fairly stated and are allowable, allocable and reasonable for its NSF awards.

Source: NSF OIG Audit Report No. 09-1-014
University of Michigan – 8/2009

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Case Study Example

• The auditors noted four compliance and internal control deficiencies in U-M’s financial management practice, three of which contributed to the questioned costs and at-risk cost share and one which increases the risks that NSF awards will not be managed efficiently and effectively.
  – U-M lacks an effective record retention system for maintaining source documentation
  – U-M lacks procedures for monitoring and enforcing labor certification and effort reporting policies
  – U-M lacks a timely and adequate centralized monitoring control process over costs it charges to its NSF awards
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.

*Source: HU Policy 600-015 Direct and Indirect Cost Charging Policy – 4/2007*

http://ovprc.howard.edu/resources/policies.html
Module 5: Direct Cost

Helpful Links, Materials and Other Resources

  [ovprc.howard.edu/resources/policies.html](http://ovprc.howard.edu/resources/policies.html)
- NSF Budget Template – Demo/Download
- DHHS / NIH Office of Extramural Research
  [http://grants.nih.gov/grants/developing_budget.htm](http://grants.nih.gov/grants/developing_budget.htm)
  [http://grants.nih.gov/grants/funding/424/index.htm#inst](http://grants.nih.gov/grants/funding/424/index.htm#inst)
- Office of Management and Budget, Circular No. A-21
  [http://www.whitehouse.gov/omb/rewrite/circulars/a21/a21.html](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](http://www.whitehouse.gov/omb/rewrite/circulars/a110/a110.html)
Helpful Links, Materials and Other Resources (cont.)

- OIG Audit Report No. OIG-04-1-008, Northwest Indian College – 9/2004
- NSF OIG Audit Report No. 09-1-014, University of Michigan – 8/2009