FEDERAL COSTING PRACTICES: CHARGING ADMINISTRATIVE AND CLERICAL SALARIES/WAGES

The proper classification of any cost as direct or indirect (F&A) should be determined based on a logical thought process. This process is accomplished in five (5) steps. This process serves as an internal control:

1. **Review** – All applicable regulations, terms and conditions, policies, procedures applicable to the project/award. This includes sponsor, State, and institutional regulations, policies and procedures.

2. **Judgment** – Proper allocation of costs should be based upon the specific *purpose* of the award considering the technical goals/aims to be delivered rather than the ‘need’ for certain items of cost that are considered ancillary or a part of ‘doing business’/infrastructure costs.

3. **Justification** – Complete, adequate written justification regarding the integral nature of the administrative/clerical salaries/wages must be expressly disclosed in the proposal budget/budget narrative (or post-award via a documentation prepared when the integral need arises – this was not anticipated in the proposal process).

4. **Institutional Approval** - Justification is reviewed and if appropriate, approval is provided by responsible personnel in the associated unit, school/college and the Office of Sponsored Research (as the authorized institutional approval authority).

5. **Agency Approval** – Occurs upon award, based upon the related budget and written justification in the budget/budget narrative.

Normal Classification of Clerical/Administrative Costs:
As cited in 2 CFR, Part 200; Subpart E; Section 200.413(c) - Direct costs:

Administrative and clerical staff and their associated salaries/wages are *normally classified as indirect costs (F&A) costs*. Direct budgeting and charging of these costs may be considered appropriate only if **ALL** of the following four (4) conditions apply:

1. **Administrative or clerical services are integral to a project or activity:**
   In defining the term ‘integral’, the nature and purpose of the sponsored program lends itself to these types of personnel being *essential in the completion and fulfillment of the stated aims and objectives*. This type of involvement, in direct support of the program deliverables, is different, separate and apart from standard or routine levels of administrative support that are expected in the successful management of any sponsored award. See #4 below for examples of duties that are not considered integral to a federally sponsored award.

**Examples of Integral Involvement:** The following list is not exhaustive nor is it intended to imply that direct charging of administrative/clerical salaries would always be appropriate:

- Management of large, complex programs such as General Clinical Research Centers, Primate Centers, Program Projects (P and U mechanisms from the NIH having specific administrative support funding), and other grants and contracts that entail assembling teams of investigators from a number of institutions,
- Complex and extensive data/database management/data sharing such as a) the accumulation, analysis and entry, surveying and tabulation, cataloging, literature searching and reporting (like
epidemiological studies, clinical trials and retrospective clinical records studies); b) programs that involve the management of multiple clinical trial sites or sub-awards including the initiation and oversight of the agreements from both a technical and financial perspective; c) graphics, website development or management, human or animal protocol management, and multiple project-related investigator data coordination,

- Programs that require making travel and meeting arrangements for large numbers of participants on a repeated basis, such as for conferences and seminars,
- Programs whose principal focus is the preparation and production of manuals and reports, books or monographs (excluding routine progress and technical reports),
- Programs that are geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research field sites that are remote from the university,
- Programs that support non-research type aims more oriented toward students, trainees, fellows and participant support. Some examples of such programs are: Department of Education TRIO - Upward Bound, Talent Search, Student Services projects; NIH T32, F32 and like award mechanisms, NSF Advance It projects,
- Programs that require physical plant security
- Programs that involve direct and frequent engagement with a foreign collaborator wherein the administrative support is directly assisting in the management of the technical and financial completion of the aims,
- Programs that are listed in the annual Audit Compliance Supplement as excluded from the Common Rule and therefore costing principles

2. **Individuals can be specifically identified with the project or activity:**
   Contributions by the administrative/clerical personnel to the scientific and technical aims of the specific project/award can be determined with relative ease and a high degree of accuracy so not to be burdensome in these costing decisions.

3. **Costs are explicitly included in the budget or have prior written approval from the federal sponsor (See Internal Controls requiring institutional approval as well):**
   Upon award or subsequent to award with complete and adequate disclosure to the Sponsor’s financial/administrative official(s), the direct charging of administrative/clerical salaries will be considered final. Note also that these costs will require institutional approval.

Sponsor approval of a budget does not constitute approval of the specific cost items. The sponsor assumes that the university, in the preparation of the budget, has complied with Subpart E, the indirect cost rate (F&A) proposal assumptions, the institution’s Disclosure Statement (DS-2) and all other applicable regulations, policies and procedures. Given the various decisions made by each federal recipient, there would be no way for any sponsor to make a determination of allowability or allocation without their reliance on the recipient in their review of applicable regulations. Therefore, it is the institution's responsibility to exercise due diligence and judgment in the direct budgeting and charging of these costs.

It is possible that even if the agency approves the budget or expenditure, auditors (DHHS, sponsor, state, or internal) could, at a later time, disallow the cost based on an independent review, judgment, or lack of appropriate documentation presented at time of review.
4. **Administrative/Clerical costs are not also being recovered as indirect (F&A) costs:**
These duties/roles are not individually or collectively considered integral to a project or activity. Grouping of projects cannot be accepted in determining an ‘unlike circumstance’ to meet the requirement that integral involvement exists. Each project/award must stand on its own merit and purpose in these determinations. This listing is not exhaustive.

- Assisting with proposal processing
- Monitoring projects for fiscal and administrative compliance
- Assisting with general correspondence internally and with collaborators
- Assisting with technical/program reports
- Ordering supplies/equipment
- Managing human resource responsibilities
- Making meeting/travel arrangements for the Principle Investigator/Students

**Additional Criteria:**
In addition to the four (4) conditions cited directly above, the following must be satisfied in order that administrative/clerical costs can be considered as a direct cost (2 CFR Part 200 Sections 200.403-405):

**Meet the Definition of Direct Cost** – The cost is specifically identifiable with the objectives of the project/award, and that this identification is made with relative ease and a high degree of accuracy.

**Consistent** - All costs incurred for the same purpose, in like circumstances, are either to be treated as direct costs OR as indirect (F&A) costs. According to Subpart E, 200.419 of the Uniform Guidance, this includes consistency in estimating, accumulating and reporting costs, as well as consistency in allocating costs incurred for the same purpose.

**Allowable** - The cost may be considered allowable when it is:
- Necessary and reasonable for the performance of the Federal award,
- In conformity with any limitations or exclusions set forth in the Uniform Guidance (2 CFR Part 200) or in the sponsored agreement as to types or amounts of cost items,
- Consistent with policies and procedures that apply uniformly,
- Documented for review

**Allocable** - The project that pays the expense must directly and proportionally benefit from that cost. This important concept is known as the “point of allocation”. A cost is allocable if it is:
- Incurred specifically and solely for the sponsored award,
- Beneficial both to the sponsored award and other work, and can be distributed in reasonably approximated proportions,
- Necessary to the overall operation, and is assignable in part to the sponsored award

**Reasonable** - The cost may be considered reasonable if the nature and amount of the goods/services acquired reflects the same action that a prudent person would have taken under the same circumstances in incurring the cost:
- Whether the cost is of a type generally recognized as ordinary and necessary for the performance of the sponsored agreement,
- Has been determined to be reasonable by the individuals concerned, acting with due diligence in the same circumstances,
• Has been determined through sound business practices, Federal, state and other laws and regulations; costing policy, and is consistent with established institutional policies and practices
• Market prices for comparable goods/services for the geographic area have been considered

THIS GUIDANCE, IN THE DETERMINATION TO DIRECTLY CHARGE PORTIONS OF ADMINISTRATIVE AND CLERICAL SALARIES, IS ONLY APPLICABLE TO FEDERALLY SPONSORED AWARDS. THIS INCLUDES FEDERAL FLOW-THROUGH FUNDING. ALL OTHER TYPES OF SPONSORED AWARDS WILL CHARGE THESE COSTS IN ACCORDANCE WITH SPONSOR TERMS AND CONDITIONS.

INTERNAL CONTROLS:

JUSTIFICATIONS
The justifications must explain the purpose of the costs relative to the award’s aims and outcomes in sufficient detail to enable those responsible for reviewing the proposed budget to make a determination of whether the cost meets all of the criteria above. Documenting the specific tasks that will be performed and quantifying the related salary dollars, as integral to the award, will lend adequacy and completeness to the justifications and the resulting charges.

If after the start of a project, it is determined that administrative/clerical involvement is integral to the completion of project aims, (i.e., these costs were not identified in the proposed budget nor have received sponsor approval), justifications for these costs must be prepared and submitted to institutional officials for review before the expenses can be charged as direct costs. The justifications should be routed to the Office of Sponsored Research (OSR) for review using a ‘Cost Accounting Standards Exemption Request’ form. OSR will then work directly with the sponsor to gain their prior approval.

REVIEW OF COSTS
The Office of Sponsored Research, as the authorized institutional official, will conduct reviews as follows:

1) At the time of award through the internal quality review process to ensure that only proper administrative/clerical personnel costs have been included in the sponsor’s budget,
2) At the time of submission of the ‘Cost Accounting Standards Exemption Request’ form to ensure that adequate justification has been provided in support of the salary/wage costs and that the allocation basis is reasonable and supportable,
3) Pre-audit of labor distribution adjustments for adequate justification,
4) Post-audit reviews in the selection of random personnel costs to ensure that the costs are appropriate, properly allocated and documented via internal processes.

TRAINING AND OUTREACH
The Office of Sponsored Research offers workshops and lectures on the foundations of costing on federal programs.