



TO: Deans, Directors, and Department Heads

FROM: James E. Peterson,  
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SUBJECT: Direct vs. F&A Charges to Sponsored Agreements

## INTRODUCTION

Recent discussions and emails between the Office of Sponsored Research (OSR) and campus administrators have made it evident that OSR needs to do a better job communicating how it approves expenses on sponsored research, whether they are direct charges to the research project or F&A costs.

Office of Management and Budget Circular A-21 defines the cost principles applied to Federal grants, contracts, and other agreements with educational institutions. The successful application of these cost accounting principles requires development of mutual understanding between representatives of educational institutions and of the Federal Government as to their scope, implementation, and interpretation.

The principles are designed to assure that the Federal Government bears its fair share of sponsored research costs which are determined in accordance with generally accepted accounting principles. All Federal agencies that sponsor research and development, training, and other work at educational institutions use A-21 in determining the allowability of costs incurred for such work.

## DIRECT vs. F&A CHARGES TO SPONSORED AGREEMENTS

A-21 states that the following costs should normally be treated by the University as allowable F&A costs:

- salaries and associated benefits of administrative and clerical staff,
- office supplies,
- postage,
- telephone costs, and
- memberships

Use of the qualifier "normally" gives the University some latitude in interpreting the A-21 guidelines. However, the University should be averse to pushing that interpretation too liberally because the guidelines very explicitly place the responsibility for establishing and consistently applying policies for what costs are always direct and what costs are always F&A squarely on the University (not on Government auditors or agency program officers). Our day-to-day decisions and documentation practices concerning direct or F&A charges are subject to audit that may question our interpretation of those costs. The procedures outlined below are in place to put the University in a strong position with respect to such audits and to avoid potential costly disallowances. Therefore, the University's starting point should be that the bulleted costs above are generally unallowable as direct charges to sponsored projects unless justifiable documentation would prove otherwise.

## JUSTIFIABLE DOCUMENTATION

### Administrative and Clerical Salaries

A-21 indicates that direct charges for administrative or clerical services may be allowable when a major project or activity explicitly budgets for and the individuals involved can be specifically assigned to the project or activity. Examples of "major projects" are offered in Exhibit C of A-21 (see <http://research.unc.edu/osr/documents/exhibitc.pdf>). The key is that the project requires a level of identifiable and measurable support services beyond the normal scope necessary for the typical project. The decision flow chart labeled Attachment 1 (see <http://research.unc.edu/osr/documents/DDDAttachment1.pdf>) should be used to assess if circumstances exist whereby clerical and/or administrative salaries can be charged to a sponsored project.

### Office Supplies

Office supplies (e.g. personal computers, printers, monitors, fax machines, printer paper, toner cartridges, pens, pencils, legal pads, clips, rubber bands, books, individual subscriptions to journals, etc.) are generally viewed as F&A costs and would be charged to F&A accounts or other non-sponsored accounts. As an example, personal computers are necessary to the overall support of a sponsored project in an academic or administrative unit. However, purchasing computers for this purpose would generally be considered an F&A expense -- part of the normal wherewithal the institution can reasonably be expected to provide for all staff because their use meets common University purposes and objectives.

However, there are circumstances that could be viewed as justifying an office supply being charged as an allowable direct cost. For example, an agreement's approved research plan and budget require purchasing laptops to conduct field surveys by employees supported by a sponsored project. Such purchases would be considered an allowable direct charge.

Because of their value and wide use across campus for research, instruction, and general support activities, making the appropriate determination for computer costs can be particularly challenging. Reaching the correct conclusion for this category is critical to avoid exposing the University to risks associated with federal regulations and audit findings.

**Therefore a separate decision flow chart must be completed and approved prior to purchasing and charging computers to sponsored agreements (see Attachment 2 at <http://research.unc.edu/osr/documents/DDDAttachment2.pdf>).**

In summary, office supplies can be charged to a sponsored agreement only when their uses are essential to the performance of that agreement and explicitly identified in the research plan/budget as measurable cost line items.

**Attachment 2 should be used to evaluate and document circumstances for computers and related peripherals, and Attachment 3 (see <http://research.unc.edu/osr/documents/DDDAttachment3.pdf>) should be used for all other office supplies.**

### Postage (stamps)

The postage costs associated with the normal administration of the project are generally not allowable as direct charges to the project. Examples include interactions with vendors, routine correspondence with the sponsor, colleagues, and potential publishers. In general however, the costs of overnight shipping and handling (e.g., Federal Express) are allowable assuming they are directly associated with the conduct of the project. The principal reason for this distinction is that the latter can be directly assigned to a particular project relatively easily and with a high degree of accuracy. Stamps are generally purchased in bulk and consumption cannot, in a cost effective manner, be assigned to a specific activity.

### Telecommunications

The costs of telephone lines used to conduct routine business of the project should not be direct charged to a project. Telephones used solely for the conduct of surveys are allowable as this would represent an exceptional circumstance to routine business purposes. Under the new telecommunication model started recently, only international calls are allowable and only if they are directly related to the project activities.

The University takes the position that cell phones and prepaid long distance calling cards also should not be direct charged to Federal sponsored projects because there is no easy or accurate way to monitor usage to ensure project relatedness.

### Memberships

The dues to maintain individual memberships in professional and scientific organizations are not allowable direct costs to federal sponsored projects. They are considered professional development expenses and should be covered with discretionary or personal funds.

## **PROPOSAL BUDGETS**

To charge these expenses to a Federally sponsored project, the following two criteria must be met:

1. The costs must be specifically identified with the objectives of the project or activity.
2. The costs must be explicitly listed in the budget, explained in the budget justification, appropriately documented, and unambiguously approved by the sponsor in the award.

Despite these cautionary and preemptive measures, we must keep in mind that auditors, who, in all likelihood, will not have been involved in the technical and business discussions that result in an award, may still find these costs to be unallowable.

As referred to in the body of this memorandum, I have included three decision forms as attachments that will be used to determine and document if a cost can be appropriately charged to a sponsored project. OSR will revise the eIPF in RAMSeS to include the questions on these attachments and make them part of the budget justification for proposals. Principal investigators' written answers to these questions will have to substantiate their reasons for proposing to charge normal F&A expenses as direct costs to a sponsored project.

If you have questions, please contact me at 966-2542 or [jim\\_peterson@unc.edu](mailto:jim_peterson@unc.edu). Thank you.