

May 14, 2013

R-1213-2A
Chancellors



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POLICY ON SPECIFIC CIRCUMSTANCES FOR THE TREATMENT OF FACILITIES AND ADMINISTRATIVE (F&A) COSTS AS DIRECT COSTS



Pursuant of the University's compliance with federal sponsor's requirements, the following circular is distributed system-wide to clarify specific aspects pertaining to the identification and assignment of facilities and administrative costs (F&A) in all university federal awards (*pass-through federal funds included*). In particular, according to 2 CFR 220 *Cost Principles for Educational Institutions* (formerly known as OMB Circular A-21), Section F.6.b(2), the following guidelines apply to the determination of departmental administrative and clerical costs as direct costs:

The salaries of clerical and administrative staff should normally be treated as F&A costs. However, direct charging of these costs may be appropriate where:

1. a ***major project or activity*** explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity, and/or,
2. the ***actual activity must be incurred in unlike circumstances*** that are not the same as the actual activities normally included in the Institution's F&A cost pool, or, if the same, the indirect activity costs are immaterial in amount.

The University's F&A cost pool encompasses broad categories of costs. "Facilities" is defined as depreciation and use allowances, interest on debt associated with certain buildings, equipment and capital improvements, operation and maintenance expenses, and library expenses. "Administration" is defined as general administration and general expenses, departmental administration, sponsored projects administration, student administration and services, and all other types of expenditures not listed specifically under one of the subcategories of Facilities (including cross allocations from other pools).

"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. Some examples (Exhibit C in 2 CFR 220) of major projects where direct charging of administrative or clerical staff salaries may be appropriate are:

- 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.
- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- Projects geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research field 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.

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. Appropriateness would require, as stated above, that ***the costs of such activities are incurred in unlike circumstances; or, if the same, the indirect activity costs are immaterial in amount.*** It would be inappropriate to charge the cost of such activities directly to specific sponsored agreements if, in similar circumstances, the costs of performing the same type of activity for other sponsored agreements were included as allocable costs in the institution's F&A cost pools. Application of negotiated predetermined F&A cost rates may also be inappropriate if such activity costs charged directly were not provided for in the allocation base that was used to determine the predetermined F&A cost rates.

Furthermore, if the latter administrative and clerical costs are to be budgeted directly, they must be clearly identified and described in the budget justification. While federal agencies provide no specific guidelines regarding an acceptable level of effort of administrative and clerical personnel, it is clear under the unlike principle that the level should be large enough to be identified with the project and large enough to be considered substantial. The administrative and clerical personnel involved, given adequate justification, is hence required to appropriately generate their corresponding activity and effort reports, as per University and federal guidelines.

Additional special circumstances, or considerations, may also arise in charging the expenses of certain non-salary unallowable items to a research grant as direct costs. These non-salary expenses may be appropriate if certain criteria are met. For instance, the budgeted items: (1) are necessary to meet the requirements of the grant-supported project or activity; (2) will be used primarily or exclusively for the benefit of the project or contract; and, (3) have been appropriately justified and approved in writing by the sponsor. These types of expenses may include general purpose supplies, equipment & telephone services that can be identified exclusively with a project and will only be used for research or project activities. For example, general office and data processing equipment and supplies, permission obtained for a phone or line solely devoted for the project or research activity, modem(s) for 24-hour collection of data (i.e. seismic data), a hot-line reserved for callers (i.e. clinical trials), special phone service required by a sponsor such as the ship-to-shore lines on NSF- or other sponsor-owned research vessels or vehicles operated by the University. The latter type of expense would exclude a phone for a new member of a research staff, since this type of expense should be covered with revenue from the University's F&A cost recoveries.

Immediate implementation of these guidelines is demanded from all campuses and research units. Therefore, all campuses and research units MUST:

1. Immediately and proactively communicate this policy to all sponsored programs administrators and offices, Human Resources and Finance Offices Directors, Deans, Chairs, Center/Institute Directors, Principal Investigators (PIs), and Program Director (PD).
2. Review with PIs/PDs all of their corresponding active and/or pending federal awards incurring in this type of expense, to determine whether administrative and clerical personnel costs are permitted. If the request for proposal and/or guidelines indicates that such costs are allowed by the agency, appropriate documentation should be provided to the corresponding sponsored programs officer or office of each campus.
3. Not allow submission of proposals that include generally unallowable administrative and clerical personnel charges without proper justification and certification by the PI/PD, and campus sponsored programs officer or office.
4. Not process requests to re-budget project accounts to include salaries of administrative and clerical personnel without certification that the amounts and types of costs are consistent with guidelines contained in this circular.
5. In the event that a proposal, award or active project is determined to require unallowable charges for salaries of administrative and clerical personnel, the cognizant Chancellor, Dean and/or Director should, in the case of a proposal or new award, provide a proper institutional account to cover such charges or, in the case of an active award, to retroactively transfer the charges.
6. In the event that unallowable charges are identified (i.e. charges that cannot be properly justified and certified by the PI/PD), such charges will be removed from the account and, in consultation with the Chancellor, Dean, Director or Chair transferred to a proper institutional account.
7. Under all circumstances, and as per UPR's President Circular R-1213-05, principal investigators and sponsored programs officers, contact the corresponding federal program officer for these types of charges, since these may be unallowable or questionable, and obtain written approval prior to engaging in these expenses or submitting a proposal.

It must be underscored that, in light of an enhanced compliance awareness culture, all University campus and research units must verify and maintain justifications of the appropriateness of these costs above and beyond simply listing such charges in the proposal budget. These costs must be viewed as potentially unallowable, and a lack of adequate justification could lead to: disallowance of the charge by the agency; and, federal auditors could even disallow charges after the fact, even if they have been approved by the agency. Ultimately, appropriately justified expenses can permit the university to negotiate with federal agencies if an agency officer arbitrarily decides not to fund the cost.