

<b>University of Central Florida</b> <b>Guidance &amp; Directive</b>	
<b>Guidance &amp; Directive No: ORC-05</b>	<b>Date of Adoption/Revision:</b> <b>September 2006</b>

<b>Subject</b>	<b>Direct Cost Charging</b>
<b>Authority</b>	<b>OMB Circulars A-21 and A-110; CASB Disclosure Statement (DS-2)</b>
<b>Applicability</b>	<b>Administration of Sponsored Projects</b>

## **1.0 Statement and Purpose**

The Federal Office of Management and Budget Circular A-21, Cost Principals for Educational Institutions (OMB A-21), Section D provides guidance to be used in determining allowable direct costs of work performed by colleges and universities under sponsored agreements. The purpose of this directive is to provide guidance to University staff to ensure compliance with Federal, State and University regulations governing the consistent treatment of direct costs to sponsored projects. Lack of proper documentation to substantiate direct costs charged to sponsored projects could result in questioned costs during an audit.

## **2.0 General Information**

**2.1** OMB A-21 describes 4 factors that can affect the allowability of a cost as it relates to sponsored projects:

- 2.1.1** Costs must be reasonable - A cost is considered reasonable if the nature of the goods or services acquired and the amount involved reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision was made to incur the cost.
- 2.1.2** Costs must be allocable to sponsored agreements under the principles and methods of Circular A-21 - A cost is allocable to a particular sponsored project if the goods or services involved are chargeable or assignable to the project in accordance with the relative benefits received.
- 2.1.3** Costs must be treated consistently - Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. Where the University treats a particular type of cost as a direct cost on sponsored agreements, all costs incurred for the same purpose in like circumstances must be treated as direct costs for all activities of the institution.

2.1.4 Costs must conform to limitations or exclusions set forth in OMB A-21 or in the sponsored agreement as to types or amounts of cost items.

### 3.0 Definitions

- 3.1 **Allocation** – The process of assigning a cost, or a group of costs, to one or more cost objectives, in reasonable and realistic proportion to the benefit provided or other equitable relationship.
- 3.2 **Departmental Authorization List (DAL)** – List of departmental personnel with corresponding authority to charge to sponsored projects.
- 3.3 **Direct Cost** – Those costs that can be identified specifically with a particular sponsored project, an institutional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.
- 3.4 **PI** – Principal Investigator on a grant, contract or cooperative agreement. This person bears the primary responsibility for costs charged to that agreement.

### 4.0 Duties and Responsibilities

- 4.1 **Principal Investigator** – Ensure that costs are allowable and allocable to sponsored projects. Ensure the correct use of expense classification account codes when initiating expenditure requests through the PeopleSoft system.
- 4.2 **Department Chair** – Review and approve the proposed budget. Establish effective processes and controls that will ensure compliance with this guidance and the University's policies and procedures related to direct cost charging. Assign an individual to function as a point of contact between the Department and ORC.
- 4.3 **Dean** – Review and approve the proposed budget. Provide general oversight and problem resolution. Ensure compliance with this guidance and the University's policies and procedures related to Direct Cost Charging.
- 4.4 **Office of Research & Commercialization (ORC)** – Review and approve the proposed budget to ensure compliance with Federal, State and University regulations and the provisions of sponsored projects. Maintain, modify and implement Direct Cost Charging guidance and procedures. Assist with development of education and training programs for employees involved in the Direct Cost Charging process. Monitor compliance with this guidance and the University's policies and procedures related to Direct Cost Charging, and report findings to the associated Departments. Report questionable practices and recurring problems to the Dean, Department Chair, Vice President for Research, Provost and Vice President of Academic Affairs, and University President.
- 4.5 **Procurement** – Procure goods and services in accordance with University policies and procedures, and sponsored agency regulations as applicable.

**4.6 Finance and Accounting** – Process direct costs in accordance with University policies and procedures. Invoice the sponsoring agency and prepare fiscal reports as required by Federal or State guidance and/or the grant or contract agreement. Coordinate with ORC to ensure that information contained in the DS-2 (Disclosure Statement) is consistent with Direct Cost Charging guidance.

## **5.0 Procedures**

**5.1** PIs must identify direct costs in the proposal budget prior to submission to the sponsoring agency. Direct costs must meet the requirements described in OMB A-21 and the sponsored agreement to be considered allowable. The following guidance is also provided to assist in identifying appropriate expense classifications. Expenses that do not meet the “tests” of allowability cannot be charged to sponsored projects.

### **5.1.1 Direct Cost Checklist:**

[http://www.research.ucf.edu/sponsoredprograms/Proposal/budget/direct\\_checklist.htm](http://www.research.ucf.edu/sponsoredprograms/Proposal/budget/direct_checklist.htm)

### **5.1.2 Allowable Costs:**

<http://www.research.ucf.edu/sponsoredprograms/Proposal/budget/allowablecosts.htm>

**5.2** The direct charging of administrative or clerical staff salaries, or non-salary administrative expenses may be permitted if a project meets the definition of a “major” project as defined in OMB A-21, Exhibit C. In these instances, the PI can submit a CAS Major Project Exemption form to ORC for review and approval. See CAS Exemptions guidance for further details.

**5.3** Only UCF personnel included on the DAL may authorize charges to sponsored projects. Personnel authorizing direct charges to sponsored projects must adhere to the guidance discussed in 5.1 above and limitations or restrictions specific to the sponsored award.

**5.4** Costs shall not be posted to closed or otherwise unfunded sponsored projects. Personnel Action Forms (PAFs) used to document personnel assignments (budgeted percentage of effort by account/project number) should be signed by the PI and approved by the Department Chair or Dean prior to submission to the Human Resources office. See guidance related to Effort Reporting for further details.

**5.5** On a monthly basis, PIs (in conjunction with Department Administrators, where applicable) must review and monitor budget and expense reports for their sponsored projects. Regular monitoring of sponsored project expenses is an important internal control element that may assist in mitigating future audit findings.

**5.6** Department Administrators and/or PI’s should provide documented evidence of review and approvals of monthly project costs to ORC.

- 5.7** Direct costs charged to sponsored projects in excess of the award amount result in a cost overrun or deficit spending. Cost overruns must be moved to a departmental (non-sponsored) account in accordance with Federal requirements and UCF guidance. See additional guidance related to Cost Transfers.
- 5.8** ORC must review and approve proposal budgets which outline direct cost charges to sponsored projects. ORC should also review and update, as necessary, any direct cost guidance used by UCF personnel to ensure compliance with Federal guidelines and the provisions of grant agreements.
- 5.9** The Compliance Office should monitor Direct Cost Charging guidance issued by ORC to ensure consistency with applicable OMB circulars and UCF's published DS-2. The Compliance Office should also conduct independent monitoring of sponsored project costs to ensure compliance with Federal guidelines and the provisions of grant agreements.
- 5.10** If an "allowable" cost benefits two or more projects or activities (mutually beneficial) in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, the costs may be allocated or transferred to benefited projects on any "reasonable" basis. Some examples of reasonable allocation methods would include the use of square footage, FTEs/percentage of effort, activity hours or outputs.
- 5.11** The following direct costing practices should be avoided as they do not meet OMB A-21 standards for a "high degree of accuracy" in the assignment of costs to sponsored agreements:
- 5.11.1** Rotating charges among projects.
  - 5.11.2** Assigning charges to the sponsored agreement with the largest remaining balance.
  - 5.11.3** Charging the budgeted amount rather than charging an amount based on actual usage.
  - 5.11.4** Assigning charges to a sponsored agreement before the cost is actually incurred.
  - 5.11.5** Identifying a cost as something other than what it actually is, such as classifying an item of equipment as a supply.
  - 5.11.6** Charging expenses exclusively to sponsored agreements when the expense has supported non-sponsored agreement activities.
  - 5.11.7** Assigning charges that are part of normal administrative support (indirect costs) for sponsored agreements (e.g. printing and copying charges, telephone charges).

## **6.0 Records Retention**

Financial records, supporting documents, statistical records, and all other records for all Federal and State sponsored projects must be retained for at least three (3) years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report. Additional records retention requirements must conform to the award and/or policy of the specific sponsoring agency. Where documentation cannot be provided as to the allowability, allocability and reasonableness of any project expense, including but not limited to expenses incurred late in the project period, the sponsor may deny them. In this case, the PI, Department or College will be expected to cover the expense from unrestricted sources.

Refer to 45 CFR 74.53 and CFR 92.42 for further guidance on records retention requirements.

## Direct Cost Charging Compliance Reference

### 1. Risk Identified:

There is no policy to require the monitoring of direct charges to sponsored projects. Business Managers who support various faculty members may provide faculty with expenditure reports on a periodic basis (monthly); however, there is no requirement for faculty to review the reports or respond to the Business Managers that they concur or disagree with the reported expenditures. Faculty who are not supported by Business Managers may pose a higher risk of noncompliance if they are not familiar with A-21 requirements.

#### Strategy to Mitigate Risk:

Develop policy/procedure for monitoring costs charged to sponsored projects, at a minimum, on a monthly basis. Procedures should describe the required timeframes for review and approval of costs charged to sponsored projects and the method of communicating those results.

#### Guidance Addressing Risk:

- *From Direct Cost Charging guidance:* "Only UCF personnel included on the DAL may authorize charges to sponsored projects. Personnel authorizing direct charges to sponsored projects must adhere to the guidance discussed in 5.1 and limitations or restrictions specific to the sponsored award."
- *From Direct Cost Charging guidance:* "On a monthly basis, PIs (in conjunction with Department Administrators, where applicable) must review and monitor budget and expenditure reports for their sponsored projects. Regular monitoring of sponsored project expenditures is an important internal control element that may assist in mitigating future audit findings."

#### Control(s) Mitigating Risk:

- *Preventative:* Restrictions have been established in PeopleSoft to prevent certain types of costs (object codes) from being charged to sponsored projects.
- *Detective:* Department Administrators and/or PI's review and monitor budget and expenditure reports for sponsored projects.

### 2. Risk Identified:

PI's do not necessarily initiate direct cost charges on sponsored projects due to limited authorizations on the Departmental Authorization List (DAL). The potential exists for an invoice to post to a project for which the PI of that project has not reviewed or approved. Once an invoice is approved for payment, there are no controls in place to monitor the allowability or applicability of that charge to the sponsored project (with the exception of equipment or travel purchases.) Direct charges should also be monitored to ensure proper "cut off" in order to determine whether costs charged were within the allowable funding period of the award. Overall, monitoring of the allowability of charges to ensure compliance with A-21 is limited.

#### Strategy to Mitigate Risk:

PI's/faculty ultimately responsible for tracking expenses charged to their respective sponsored projects should be authorized on the DAL in order to minimize the opportunity for project costs

to be posted to an account for which that PI/faculty member has not reviewed and approved. This may mitigate the potential for inappropriate costs as stated in the Notice of Award/650 Form. A compliance review of posted invoices (possibly on a sample basis) could assist the University in identifying the use of improper/incorrect account codes and potentially unallowable costs posted to sponsored agreements.

**Guidance Addressing Risk:**

- See “Guidance Addressing Risk” related to Item #1 above.

**Control(s) Mitigating Risk:**

- *Detective:* The University’s effort reporting system (ECRT) identifies actual payroll distribution charged to a cost share account by employee. The employee must certify that the identified actual payroll distribution is accurate and, if not accurate, must identify the accurate amount of effort to allocate to the cost share account. ECRT stores the electronic certification.
- *Detective:* The Compliance Office should also conduct independent monitoring of sponsored project costs to ensure compliance with Federal guidelines and the provisions of grant agreements.

**3. Risk Identified:**

In the completion of Personnel Activity Forms (PAF’s), Human Resources may not be required to validate available funds in the appropriate sponsored project accounts (when applicable), and ORC approval of those PAF’s is not required. As the payroll system does not interface with the general ledger, there is an increased risk of charging an inappropriate grant, unfunded grant or closed grant as a result.

**Strategy to Mitigate Risk:**

ORC approvals on PAF’s could mitigate the possibility of charging personnel services to closed or otherwise unfunded sponsored projects. The requirement of centralized review and reconciliation of effort reports by ORC should be implemented. Actual effort reporting should be reconciled to the budget and major differences investigated to ascertain whether agency approval is required to substantiate the difference and to support compliance with award terms and conditions.

**Guidance Addressing Risk:**

- *From Effort Reporting guidance:* “Each PI and Department Administrator is responsible for monitoring the timely submission of time and effort certifications and compliance with negotiated levels of committed effort using the ECRT system.”
- *From Effort Reporting guidance:* “Modifications to time and effort commitments may require sponsor notification/pre-approval and formal modification in the award documents. For non-federal sponsored projects, the PI must conform to the terms and conditions of the particular contractual agreement. For federal contracts and grants, the PI must conform to OMB A-110 which requires prior written approval from the awarding agency for either of the following circumstances involving changes in PI commitment: a reduction in time devoted to the project of 25% or more from the proposed and awarded level; and/or an absence from the project for more than three months.”
- *From Direct Cost Charging guidance:* “Costs shall not be posted to closed or otherwise unfunded sponsored projects. Personnel Action Forms (PAFs) used to document personnel

assignments (budgeted percentage of effort by account/project number) should be signed by the PI and approved by the Department Chair or Dean prior to submission to the Human Resources office. See guidance related to Effort Reporting for further details”.



**Control(s) Mitigating Risk:**

- *Preventative:* The University's effort reporting system (ECRT) alerts employees when their effort certified varies 25% or more from the committed level of effort (by account number).
- *Detective:* ORC receives personnel action form (PAF) activity log by pay period from Human Resources on a bi-weekly basis and maintains a database with this information. This log allows ORC to monitor changes in all salary distribution for all sponsored projects and recognize if a retroactive PAF has been processed for a prior semester (in which effort has already been certified).
- *Preventative:* ORC will send a "Budget Transfer Form" to Finance and Accounting requesting that funds be transferred from the appropriate Departmental E&G account to the sponsored project cost share account (thereby eliminating reliance upon the PI to timely submit the Budget Transfer, which increases the risk of them charging matching costs to their Departmental E&G account).

**4. Risk Identified:**

The "Direct Cost Checklist", developed by ORC and posted on UCF's website, is used by departmental accounting offices to assign object codes to expenses of sponsored projects. This checklist is not reviewed and updated regularly to ensure consistency with reported information in the DS-2, which is completed by Finance & Accounting.

**Strategy to Mitigate Risk:**

ORC should coordinate with F&A to reconcile any differences between information contained in the checklist with information reported in the DS-2 to ensure consistent application of direct charges to sponsored agreements.

**Guidance Addressing Risk:**

- *From Direct Cost Charging guidance:* Roles and Responsibilities of Finance and Accounting include "coordinate with ORC to ensure that information contained in the DS-2 (Disclosure Statement) is consistent with Direct Cost Charging guidance".

**Control(s) Mitigating Risk:**

- *Detective:* The Compliance Office should monitor Direct Cost Charging guidance issued by ORC to ensure consistency with applicable OMB circulars and UCF's published DS-2.

**5. Risk Identified:**

The allocation of mutually beneficial direct costs may not be allocated to grants using "reasonable" allocation methods. For example, charge codes utilized by a department for copy charges (or a cell phone bill for a faculty member) may be billed 100% to a sponsored project although all copies and/or phone calls made did not relate exclusively to that project. Instead, charge codes are "rotated" (monthly) so as not to continually charge one project.

**Strategy to Mitigate Risk:**

Develop a methodology and policy/procedures for allocating mutually beneficial direct costs to grants. Policy/procedures should include review and approval requirements, allocability of charges per A-21, savings potential due to economies of scale and acceptable allocation methods. For example, cell phone bills could either be itemized or allocated to projects using bases such as salary dollars charged (as documented in time and effort reports.)

### **Guidance Addressing Risk:**

- *From Direct Cost Charging guidance:* If an “allowable” cost benefits two or more projects or activities (mutually beneficial) in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, the costs may be allocated or transferred to benefited projects on any reasonable basis. The following direct costing practices should be avoided as they do not meet OMB A-21 standards for a "high degree of accuracy" in the assignment of costs to sponsored agreements:
  - Rotating charges among projects.
  - Assigning charges to the sponsored agreement with the largest remaining balance.
  - Charging the budgeted amount rather than charging an amount based on actual usage.
  - Assigning charges to a sponsored agreement before the cost is actually incurred.
  - Identifying a cost as something other than what it actually is, such as classifying an item of equipment as a supply.
  - Charging expenses exclusively to sponsored agreements when the expense has supported non-sponsored agreement activities.
  - Assigning charges that are part of normal administrative support (indirect costs) for sponsored agreements (e.g. printing and copying charges, telephone charges).
  - Roles and Responsibilities of Finance and Accounting include “coordinate with ORC to ensure that information contained in the DS-2 (Disclosure Statement) is consistent with Direct Cost Charging guidance”.

### **Control(s) Mitigating Risk:**

- *Detective:* Department Administrators and/or PI's should provide documented evidence of review and approvals of monthly project costs to ORC.
- *Detective:* The Compliance Office should also conduct independent monitoring of sponsored project costs to ensure compliance with Federal guidelines and the provisions of grant agreements.