

Eastern Illinois University

Guidelines for Budgeting and Charging Direct Costs on Grants and other Sponsored Projects

Funded with Federal Funds, Federal Flow-through Funds, and Most Private Funds

Introduction

In accepting government sponsored projects (grants, contracts, and other types of agreements) Eastern Illinois University agrees to abide by government regulations regarding the use of those funds. The Code of Federal Regulations Title 2, Subtitle A, Chapter II, Part 200 (also known as the Uniform Guidance) sets forth general criteria for determining the allowability of direct costs on government sponsored projects. Many government agencies publish additional cost guidelines specific to those agencies, and familiarity with such regulations is also necessary.

Although generally not as stringent as government agencies, non-governmental agencies may also have cost guidelines with which Eastern faculty (principal investigators), department administrators, and/or grant administrators should be familiar. When administering non-federal funds, Eastern will follow federal guidelines unless there is a documentable reason to do otherwise (e.g. non-Federal extra service pay).

This document is not comprehensive; instead, it summarizes regulations the federal government uses to determine whether a cost item may be charged to a sponsored project. Eastern complies with these regulations both in constructing a budget for a proposal and in charging expenses to grant accounts. The regulations apply to all sponsored projects funded with federal money or federal flow-through money. Government auditors will compare Eastern's practices with these regulations when conducting audits of sponsored projects awarded to Eastern.

Responsibility

The fiscal agent of each account is responsible for determining whether expenses are appropriate charges to accounts of grants and other sponsored projects. A fiscal agent with questions about the appropriateness of a charge should consult with appropriate personnel at the agency that made the award. A grants accountant or the Office of Research and Sponsored Programs staff may also be of assistance.

Direct Costs: Definition and Criteria for Appropriateness

Direct costs are those costs that can be identified specifically with a particular sponsored project, or that can be directly assigned to such activity relatively easily with a reasonable degree of accuracy.

For purposes of determining whether it would be appropriate to budget or charge a certain direct cost on a government sponsored project, principal investigators, departmental business officers, and grant administrators should be familiar with four main criteria:

1. reasonable
2. allowable
3. allocable
4. treated consistently

Reasonable

A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are:

(a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity (EIU) or the proper and efficient performance of the Federal award.

(b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.

(c) Market prices for comparable goods or services for the geographic area.

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

[Uniform Guidance, Subpart #, §200.404]

Allowable

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.

(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.

(c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

(d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

(e) Be determined in accordance with generally accepted accounting principles (GAAP).

(f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.

(g) Be adequately documented.

[Uniform Guidance, Subpart #, §200.404]

Allocable

A cost is allocable to a particular Federal award if the goods or services involved are chargeable or assignable to that Federal award in accordance with relative benefits received. This standard is met if the cost meets these criteria:

(1) It is incurred specifically for the Federal award;

(2) It benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and

(3) It is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons.

Direct cost allocation principles: If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must 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, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

[Uniform Guidance, Subpart #, §200.405]

Treated Consistently

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.

Identification with the sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs of sponsored agreements.

Eastern Illinois University's Treatment of Direct Costs

Typical costs charged directly to a Federal (and non-Federal) award are the compensation of employees who work on that award, their related fringe benefit costs, the costs of materials and other items of expense incurred for the award. If directly related to a specific award, certain costs that otherwise would be treated as indirect costs may also include extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations.

Salaries of Administrative and Clerical Staff

The salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:

- (1) Administrative or clerical services are integral to a project or activity;
- (2) Individuals involved can be specifically identified with the project or activity;
- (3) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- (4) The costs are not also recovered as indirect costs.

Charges for Compensation for Personal Services

Types of Activities

Federal policy distinguishes two types of activities for which compensation is an allowable expense: direct activities and incidental activities.

Direct activities contribute directly to work under an agreement. Examples of such activities include delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, developing and maintaining protocols (human, animals, etc.), managing substances/chemicals, managing and securing project-specific data, coordinating research

subjects, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences.

By definition, incidental activities do not contribute to work under an agreement in any of the ways that direct activities contribute. Such activities must either be specifically provided for in the Federal award budget or receive prior written approval by the Federal awarding agency. Compensation for incidental activities will be rare to nonexistent at EIU.

Institutional Base Salary

The Federal government defines Institutional Base Salary (IBS) as the annual compensation paid by EIU for an individual's appointment, whether that individual's time is spent on research, instruction, administration, or other activities. IBS excludes any income that an individual earns outside of duties performed for EIU.

For a faculty member, EIU specifically defines IBS as *compensation for all of the individual's annual duties and pay in the absence of grant funding*. IBS may be stated as a monthly or annualized amount; IBS may be for full-time or part-time employment. For a faculty member, IBS may be for a nine-month contract, a ten-month contract, or any other duration that encompasses the individual's complete duties. Compensation for summer teaching is not included in IBS. IBS does not include overload pay as overload is defined by the EIU-UPI agreement. IBS can change in response to changes in an individual's scope of duties and pay in the absence of a grant, but IBS cannot increase simply because an individual receives a grant.

For an employee who is not a full-time faculty member, IBS is defined as the employee's monthly or annualized salary.

Normal Pay for Work During the Contract Period

Charges for work performed on Federal awards by faculty members during the contract period (e.g., academic year) are allowable at the IBS rate. This principle applies to all EIU faculty and staff members. Unless there is prior approval by the Federal awarding agency, charges of an employee's salary to a Federal award must not exceed the proportionate share of the IBS for the period during which the faculty member worked on the award.

During the contract period, federal funds must replace (not augment) some portion of the Institutional Base Salary unless less the work is intra-university consulting (vide infra). For example, if an employee pledges 20% of his or her effort to a federally-funded project, a maximum of 20% of Institutional Base Salary may be charged to the grant, and this money must "buy out" salary, not add to it. The workload should include CU's for the grant-related work, and the distribution of CU's should match salary distribution as verified with an effort report.

Extra Service Pay

Intra-university consulting by faculty is assumed to be undertaken as a normal obligation requiring no compensation in addition to IBS. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the faculty member is in addition to his or her regular responsibilities, any charges for such work representing additional compensation above IBS are allowable provided that such consulting arrangements are specifically provided for in the Federal award or approved in writing by the Federal awarding agency. Such additional compensation above IBS is considered Extra Service Pay.

Intra-university consulting and extra service pay must also be compliant with all EIU policies that apply to all faculty members. Salaries, as supplemented, must fall within the salary structure and pay ranges established by the university. Specifically, if intra-university consulting is formalized on a faculty workload document, then extra service pay will comply with all EIU policies for overload pay. Whether intra-university consulting is formalized on a faculty workload document or not, the amount paid must still be commensurate with the IBS rate of pay and the amount of additional work performed.

Extra service pay is subject to the same standards of effort reporting as normal compensation.

Non-Federal Extra Service Pay

Faculty and staff who work on external non-federal grants may receive extra service pay. University guidelines, internal governing policy, and overload practices consistent with the existing UPI contracts (for Unit A and Unit B employees) serve as the basis for determining permissible extra service pay and/or supplemental income during the employee contract period. The maximum amount of extra pay on external grants will not exceed 30% of the Institutional Base Salary (IBS) unless the grant specifically requires additional time and effort during the academic year and the additional work is approved by the faculty/staff's supervisor/Chair.

Pay for Periods Outside the Employee Contract Period

Charges for work performed by faculty members on Federal awards during periods not included in the base salary period will be at a rate not in excess of the IBS. If the work is teaching activity for a Federally funded project, then charges will be based on Eastern's normal policies that govern compensation to staff or faculty members for teaching assignments during such periods.

Part-Time Employees

Charges for work performed on Federal awards by faculty or staff members having only part-time appointments will be determined at a rate not in excess of that regularly paid for part-time assignments.

Inappropriate Practices

The following examples are not all-inclusive. They are intended to be illustrative of certain practices that can result in direct cost disallowance during audits of sponsored agreements.

1. Purchasing goods, supplies, or equipment at the end of the project simply to use up unspent funds.

Unless there is documentable evidence that the project will be renewed after its termination date, all charges to a project must be allowable, allocable, reasonable, and necessary to conduct grant activities before the termination date. Purchases may not be made simply to use up the remaining balance at the end of a project that is not being extended or renewed.

Purchases made near the end of a grant may require additional explanation to justify their benefit to the project, especially

- Equipment purchased in the last 90 days
- Supplies purchased in the last 30 days

EIU may review all supplies purchased within 30 days of the termination date and all equipment purchased within 90 days of the termination date. If there is no documentation that the supplies or equipment were necessary for the project before the termination date, EIU will not allow the purchases to be charged to the grant. The principal investigator or project director will have to find a different source of funds to pay for the unallowable supplies and/or equipment.

2. Charging 100% of a direct cost item to a sponsored project if part of the item will be used by other projects or non-sponsored activities [capital equipment approved by the sponsor (or approved internally if allowed by the sponsor) is excluded from this requirement].
3. Replenishing departmental office supplies with grant funds.
4. "Rotating" charges among sponsored projects by month without establishing that the rotation schedule credibly reflects the relative benefit to each grant.
5. Assigning charges to the sponsored project with the largest remaining balance.
6. Identifying a cost as something other than what it actually is by intentionally using an incorrect account code.

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