

Northeastern University
Vice Provost for Research

COSTING POLICY

Scope and Purpose

As a recipient of federal funding, Northeastern University must comply with the regulatory standards of OMB Circular A-21, *Cost Principles for Educational Institutions* (A-21). Recent A-21 revisions mandate all universities to tighten costing practices for University accounts with expenses supported by external funds. Expenses must be charged consistently and costs must be supported with adequate documentation. As a recipient of federal awards in excess of \$25 million annually, Northeastern University is also required to disclose its practices to the federal government for charging costs (either direct F&A/indirect) to sponsored and non-sponsored accounts.

This policy defines and establishes University practices for charging direct and facilities and administrative (F&A or indirect) costs to University accounts. This policy also provides investigators and university staff with costing guidance and promotes consistency in estimating and charging costs in order to assure responsible stewardship of external funds and regulatory compliance. For further guidance please see the [Guide for Sponsored Project Expenditures](#).

This policy applies to all university accounts with expenses supported by federal and federal pass through external funding, regardless of whether the primary purpose of the project is research, instruction, curriculum development, clinical, public service or other. Direct charging of normal indirect costs to non-federal and non-federal flow-through projects is permitted so long as this is in accordance with the sponsor's guidelines and the notice of grant/contract award. Individuals involved in applying these practices must understand and comply with this policy.

Policy

Costs will be allowable and consistently charged as either direct or indirect expenses in accordance with OMB Circular A-21 and the following guidelines. If a Principal Investigator (PI) or staff fails to comply with this policy, the University may suspend or withdraw proposal submissions for the PI and may suspend work on a sponsored project. Non-compliance may also lead to other disciplinary actions in accordance with University policies.

Specific Requirements

Allowable Costs

Allowable costs are those which are (a) reasonable and necessary; (b) allocable to sponsored projects under the principles and methods outlined in A-21; (c) given consistent treatment through the application of those generally accepted accounting principles appropriate to the circumstances; and (d) conform to any limitations or exclusions set forth in A-21 or as specifically cited in the sponsored agreement.

Direct Costs can be identified specifically with a particular project or another institutional activity and can be assigned to activities relatively easily with a high degree of accuracy. (*A-21, Section D1*)

In general, an expense may be charged to a project as a **direct cost** if it meets the following criteria:

1. The expense is budgeted as a direct cost and accepted by the sponsor; and
2. The expense conforms to A-21 definitions for institutional consistency of cost treatment in like circumstances; and
3. The expense meets the A-21 definitions for allowability, reasonableness and allocability to the project.

F&A (Indirect) Costs are those expenses incurred for common or joint objectives that cannot be readily and specifically identified with a particular project. Costs that generally fall into this category include memberships, subscriptions, general-purpose computers and office equipment, routine office supplies, local (basic) telephone charges, postage, etc.

Direct Charging Normal Indirect Costs

In some cases, expenses normally charged as indirect costs may be charged directly to the project. To meet the consistent treatment requirements, additional documentation is required to show the "**unlike circumstances**", as defined in A-21. The requirements for "unlike circumstances" are as follows:

- The project has a special need for the item or service that is beyond the level of services normally provided.
- The cost can be specifically identified to the work conducted under the project and is appropriately documented.
- The cost is specified in the proposed budget of the sponsored agreement and the special circumstances requiring direct charging are justified in the grant/contract proposal.
- The sponsoring agency accepts the cost as part of the project's direct cost budget and does not specifically disapprove the cost in the award or other notification to the University.

- For programs that do not require submission of a project budget to the sponsoring agency (such as NIH modular grants), the cost must be justified to, and be approved by the Office of Research Administration.

See Appendix A for specific requirements for directly charging administrative and clerical salaries and fringe benefits to sponsored agreements.

Proportional Benefit Rule – Definition and Application

Under some circumstances, a direct expense may benefit and may be specifically identifiable with two or more sponsored projects, or sponsored projects and other activities, in proportions that can be reasonably determined. In those cases, the cost should be allocated based on the **proportional benefit** to the project. If a cost benefits two or more activities in proportions that cannot be determined because of the interrelationship of the work involved, the costs may be allocated or transferred to the benefited activities on any reasonable basis that is consistent with these guidelines.

When the proportional benefit rule is used, the required close linkage of the cost with a sponsored activity continues to apply. The criteria for allocation of costs to two or more cost objects are as follows:

- The cost in question should be **specifically identifiable** with the sponsored project and other activities with a **high degree of accuracy**; and
- **Credible documentation** of this identification and the methodology used to assign amounts to the cost objects must be maintained by the department and attached as documentation to the University voucher used to charge the cost to the sponsored project in the University accounting system.

For personnel costs that directly benefit two or more sponsored projects, the proportional benefit rule is applied when the Principal Investigator (PI) or his/her designee authorizes the distribution of staff salary and associated fringe benefits across two or more sponsored projects. This authorization should reflect the PI's best judgment of the proportional benefit of the salary and fringe benefit to each project.

The University's payroll certification process documents that the distribution of actual salary and wages reflects the appropriate proportional distribution of compensation. A-21 Section J.8.b (2) (c) requires "confirmation of activity allocable to each sponsored agreement."

For non-personnel costs that directly benefit two or more sponsored projects, the proportional benefit rule can be used for expenses other than personnel that directly benefit two or more sponsored projects as long as:

- The cost in question qualifies as a direct cost under these guidelines; and

- The cost pays for something that specifically benefits two or more sponsored projects; and
- A proportional distribution of the cost can be reasonably devised.

Unallowable Costs

The charging of certain expenses to federally funded sponsored projects is expressly prohibited by A-21 Section J. Some of these costs are allowable under certain circumstances. The specific provisions of A-21, Section J. should be consulted for specific guidance. Unallowable costs include, but are not limited to, those incurred for the following:

Alcoholic beverages for entertainment purposes (J.3.)
 Alumni activities (J.4.)
 Bad debt expense (J.6.)
 Commencement and convocation costs (J.8.)
 Contingency provisions (J.11.)
 Defense and prosecution of criminal/civil proceedings, claims, appeals and patent infringements (J.13.)
 Donations or contributions (J.15.)
 Entertainment (J.17.)
 Fines and penalties (J.19.)
 Fund raising (J.20.)
 Goods or services for personal use (J.22.), incl. housing and personal living expenses (J.23.)
 Insurance against defects (J.2151.f.) and medical liability (malpractice) insurance (J.25.g.)
 Interest (J.26.)
 Lobbying (J.28.)
 Losses on other sponsored agreements or contracts (J.29.)
 Memberships, subscriptions and professional activity costs (J.33.)
 Public relations (J.1.)
 Selling and marketing (J.46.)
 Student activity costs (J.48.)

Unacceptable Direct Costing Practices

The following direct costing practices are unacceptable:

- Assigning costs that are part of normal administrative support to sponsored projects. (For example, charging salaries for normal departmental administration and faculty effort on proposal writing, etc.).
- Rotation of charges among sponsored projects without establishing the direct benefit to each sponsored project.
- Assigning charges to the sponsored projects with the largest remaining balance.
- Assigning charges to sponsored projects on the basis of ability to pay (i.e. largest budget).

- Charging the budgeted amount in contrast to charging an amount based on actual usage.
- Describing a cost as something other than what it is. (For example, describing office supplies as lab supplies on an invoice to be recorded into the accounting system.)
- Charging cost exclusively to a sponsored project when the expense supports other non-sponsored activity. (For example, charging only sponsored projects for department recharge activity when service is provided free of charge to non-sponsored users.)

Appendix A

Guidance for Selected Cost Items

Administrative and Clerical Salaries

Administrative and clerical salaries should normally be treated as indirect costs. They may be charged directly only under exceptional circumstances. Circular A-21, Section F.6.b. states:

“Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity. "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.”

Examples of major projects:

- 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 that 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 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 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 intended to imply that direct charging of administrative salaries is always appropriate for the situations illustrated in the examples.

Administrative and clerical salaries may be charged directly if they meet all of the following conditions:

- They fall within the **special circumstances** described in Circular A-21, F.6.b.
- The individuals have **responsibilities specifically related to the work of the project**, the **effort is material**, and the effort devoted to the project is **documented in the University time and effort reporting system**.
- The title(s), percent of effort, and salary amount(s) for the clerical/ administrative position(s) are **included in the approved budget** of the sponsored agreement, and the special circumstances requiring direct charging of the services are **justified in writing** in the approved budget of the sponsored agreement.
- The sponsoring agency accepts the cost as part of the project's direct cost budget and does not specifically disapprove the cost in the award or other notification to the University.
- For programs that do not require submission of a project budget to the sponsoring agency (such as NIH modular grants), the cost must be justified to, and be approved by, the Office of Research Administration.

If the cost was not included in the approved budget of the sponsored agreement it may be charged directly to the agreement only where the University has rebudgeting authority under Federal regulations or the terms of the sponsored agreement, and the charge is justified and approved by The Office of Research Administration. The justification must be in writing and provide the same information that would have been provided to the sponsoring agency or the Office of Research Administration in the proposed project budget. The justification must also explain why the costs were not in the original budget. Approval of these requests will be given where the Office of Research Administration is satisfied that the sponsoring agency would have approved the costs had they been in the original budget. These conditions also apply to rebudgeting under NIH modular grants.

For instance, the examples would be appropriate when the costs of such activities are incurred in unlike circumstances; i.e., the actual activities charged direct are not the same as the actual activities normally included in the institution's indirect (F&A) cost pools, 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

Advertising

Advertising costs that can be charged to federally funded sponsored projects are those solely for:

- The recruitment of personnel required for performance of the sponsored project, including participant enrollment for clinical trials.
- The procurement of goods and services for performance of the sponsored project.
- The disposal of scrap or surplus materials acquired in performance of the sponsored agreement.
- Other specific purposes necessary to meet the requirements of the sponsored project.

Any other advertising costs are not allowable to federally funded sponsored projects.

Compensation

The effort percentages in the project proposal should normally be used for initially charging salary costs to the project. However, adjustments should be made to the effort percentage and salary charge if use of the proposed effort percentage is inappropriate because of changes in an individual's workload since submission of the proposal (i.e., the award of more grants than anticipated). If a reduction of 25 percent or more from the budgeted effort percentage occurs for a PI, co-PI or other key personnel, sponsoring agency notification and approval are required. (Note: this reduction is 25 percent of the budgeted effort percentage, not 25 percent of the individual's total effort. For example, a reduction from 40 percent to 30 percent would be a 25 percent reduction of the budgeted effort percentage.) All direct effort on sponsored agreements must be confirmed by effort reports and adjustments to the salary charges must be made if actual effort as shown on the effort report differs materially from the charged effort.

If a salary exceeds the NIH salary cap, the salary amount **exceeding the cap** is unallowable.

For example: A P.I. earns \$200,000 in annual salary and expends 20% effort on a project. Assume that the NIH salary cap is \$183,500. The maximum allowable salary under the cap is 20% of \$183,500, or \$36,700. In the current example the project effort is valued at 20% of \$200,000, or \$40,000. The difference ($\$40,000 - \$36,700 = \$3,300$) is unallowable.

Consulting

External consulting costs are allowable when a consulting agreement exists and a specific invoice documents the charges. Under normal circumstances, University employees may not be considered consultants. In the unusual event that the consultation is across departmental lines and the work performed is in addition to the individual's normal departmental responsibilities, the University may approve these consulting charges to a sponsored project. Each case will be considered on an individual basis. Consulting contracts should be processed in accordance with University policy.

Entertainment

Costs incurred for alcohol, social events, entertainment, and any items related thereto, such as meals, lodging, rentals, transportation, and gratuities are unallowable.

Equipment

Consistent with University policy, equipment means an article of nonexpendable tangible personal property, having a useful life of more than one year and an acquisition cost of \$1,500 or more per unit. The cost of the equipment includes the net invoice price of the equipment, including the cost of any modifications, attachments, or auxiliary apparatus necessary to make it usable for the purpose for which it was acquired.

In accordance with A-21, **special-purpose** equipment means equipment that is used only for research, medical, scientific or other technical activities. NIH policy allows such equipment as direct charges, provided that the acquisition of items having a unit cost of \$25,000 or more is approved in advance by the NIH. Other sponsoring organizations may also have restrictions. If the sponsored agreement does not specifically address equipment, check with the sponsor regarding restrictions.

General-purpose equipment means equipment, the use of which is not limited only to the special purposes outlined previously. Examples include office equipment and furnishings, printing equipment and computer equipment. Depreciation on such general-purpose items are included in the University F & A rate and are unallowable as direct charges, except in the case of unlike circumstances. Direct charging general-purpose equipment must meet the requirements listed under "Direct Charging Normal Indirect Costs" on page 2.

Maintenance and Repairs

Necessary maintenance, repairs or upkeep of directly charged project-specific equipment that neither adds to the permanent value of the property nor appreciably prolongs its intended life but keeps it in efficient operating condition is allowable within the grant period. If a maintenance agreement cost or a repair cost benefits more than one sponsored agreement or other activity, the cost must be allocated to the various projects and activities based on the benefit directly received by each. See the proportional benefit rule for discussion of appropriate distribution methodology.

Meals

Working meals and/or recruiting meals are not allowable as a direct charge to federally sponsored projects unless incurred in connection with travel, conferences, or subject meals.

Membership Dues

Memberships often have broad benefit to multiple activities and are specifically classified as indirect costs in A-21. Direct charges for memberships must meet the requirements listed under “Direct Charging Normal Indirect Costs” on page 2.

General-Purpose Computers, Software and Computer Supplies

General-purpose computers, computer supplies and office software, such as word processing and spreadsheet programs, are considered indirect costs charged through the F&A rate, unless special purpose and unlike circumstances is clearly documented (See Attachment A). Specific-purpose computers, software and supplies may be directly charged, if direct benefit to the project can be demonstrated.

Office Supplies, Telecommunications Charges, Postage and Printing/Duplication

Office supplies, postage, and local telephone line charges are normally treated as indirect costs. These costs may be charged directly in unlike circumstances, such as projects that involve large mail or telephone surveys. Direct charges for office supplies, telecommunication charges, postage and duplication must meet the requirements listed under “Direct Charging Normal Indirect Costs” on page 2.

Normal telecommunications charges, fax charges, modem costs, cellular phones and other related costs, are indirect costs and included in the F&A rate within the departmental administration component. They may only be charged as direct costs in unlike circumstances, such as field work or project-related travel.

Long distance charges that are specifically identifiable to a project may be directly charged.

Proposal Preparation Costs

Costs of preparing proposals and applications for acquiring sponsor funding, including typing, copying, mailing, long distance telephone charges, etc., are not allowable.

Recharge Activities and Service Centers

Service centers are departments or functional units that perform specific technical services primarily for the benefit of the University. Service Centers include "recharge centers" and "specialized service facilities", defined in Section J of A-21. The Animal Facility is a specialized service facility. Cost of services provided are allowable as direct costs to a sponsored project where such costs are required under the scope of the project.

All usage must be accounted for and services must be charged to all users based on actual usage (units of service) using uniform, non-discriminatory rates. The rates must be based on the actual

direct cost of providing the service. Rates must be approved by Research Finance and be revised on an annual basis upon review of actual direct expenses and charges to users.

Remodeling/Leasehold Improvements

Special arrangements and alteration costs incurred specifically for the sponsored projects are allowable direct costs when the sponsor has approved the work in advance.

Travel

Travel is an allowable direct cost when directly attributable to specific work under a sponsored project. Costs of meetings and conferences are allowable when the primary purpose is the dissemination of technical information and the cost is budgeted. Meals, transportation, facility rentals, and other items incidental to such meetings and conferences are also allowable direct costs. All travel costs charged to a sponsored project must comply with university travel policies. Additionally, the following additional requirements must be met:

- Fly America Act: American flag air carriers must be used for all federally funded travel.
- Export Control Considerations: When travelling internationally the traveler should familiarize themselves with export control requirements.

Note: Thanks in part to Drexel University for policy documents from which we developed this document

Reference Links

Federal Office of Management and Budget

[*Circular A-21 - Cost Principles for Educational Institutions*](#)

[*NIH Grants Policy Statement*](#)

[*NSF Grant Policy Manual*](#)

<http://www.neu.edu/ap/independentcontract.html>

<http://www.neu.edu/purchasing/>