FASOM - Section 05.01: Grants and Contracts - General Administration

Section 05.01: Grants and Contracts -- General Administration

The content of this policy is current, although it has not yet been transitioned to the new Fiscal Policy format. This will be accomplished as time and resources permit.

A. General


The Federal Office of Management and Budget has established guidelines for administering grants and contracts between institutions and federal agencies. These guidelines, "Cost Principles for Educational Institutions," are known as OMB Circular A-21 or simply A-21. A-21 is designed to identify direct and indirect costs associated with activities supported by federal grants and contracts and to facilitate reimbursement of those costs to institutions.

[2] FASOM

FASOM 05.01 covers basic principles contained in A-21. Other portions of FASOM 05 cover A-21 topics that have been especially important to OUS institutions: graduate fee remissions (FASOM 05.02), specialized service facilities (FASOM 05.03), depreciation and use allowances (FASOM 05.04) and time-and-effort reporting (FASOM 05.05).


OMB Circular A-21 is a complex document, and the material presented in FASOM 05 merely highlights some of its contents. Those who wish a more thorough understanding of principles for determining costs applicable to federal grants, contracts and other agreements with educational institutions should consult A-21 itself. Additional information on contracts is found in OUS's "Contracting, Leasing, and Licensing Manual."

B. Project Costs

[1] All Costs

All projects incur both direct and indirect costs. Administering an activity supported by a federal grant or contract involves identifying all associated costs.

[2] Direct Costs
[a] Direct costs can be identified specifically with a particular project, instructional activity or other institutional activity, or can be assigned to such activities relatively easily with a high degree of accuracy. Following are examples of direct costs:

- Applicable payroll assessments
- Graduate fee remissions (see FASOM 05.02)
- Expenditures for supplies and equipment
- Travel expenses
- Expenditures for computer services, printing and other service department services
- Building alteration and improvement expenses

[b] In 1993, A-21 was revised to severely restrict the charging of administrative and clerical salaries and wages. A-21 states, "The salaries of administrative and clerical staff should normally be treated as indirect costs. 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. Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as indirect costs."

[3] Indirect Costs

[a] Indirect costs are incurred for common or joint objectives and cannot be identified easily or specifically with a particular project, instructional activity or other institutional activity. A-21 divides indirect costs into two major categories: facilities and administration.

The facilities category includes the following types of expenditures:

- Depreciation and use allowances
- Interest
- Operations and maintenance expenses
- Library expenses

The administration category includes the following types of expenditures:

- General administration and general expenses
- Departmental administration expenses
- Sponsored projects administration
- Student administration and services
- All expenses not explicitly listed under facilities

[b] Following are detailed descriptions of indirect cost sub-categories:

- Depreciation and Use Allowances: Costs of institutional buildings and capital improvements to land, buildings and equipment that are attributable either to a single function or more than one function:
  - Single-function indirect costs are assigned to that function.
• Indirect costs for more than one function are allocated to individual functions performed in each building on the basis of usable square feet.

• Interest: Interest on debt associated with certain buildings, equipment and capital improvements. These costs are allocated in the same manner as the depreciation or use allowances on the buildings, equipment and capital improvements to which the interest relates.

• Operation and Maintenance Expenses: Expenses incurred for the supervision, operation, maintenance, preservation and protection of the institution's physical plant. These expenses include the following:
  o Costs for janitorial and utility services
  o Repairs and normal alterations of buildings, furniture and equipment
  o Care of grounds

• Library Expenses: Costs of operating a library including book and library-material purchases less any credits that offset direct and indirect costs. Library expenses include fringe benefit costs of applicable salaries and wages as well as a portion of general administration expenses, operation and maintenance expenses, and depreciation and use allowances. They exclude costs of rare books that have no value to sponsored agreements (e.g., museum-type books).

• General Administration and General Expenses: Expenses incurred for the general executive and administrative office that do not relate solely to any major function of the institution. These expenses include fringe benefit costs of applicable salaries and wages, a share of operation and maintenance expenses, and a share of depreciation and use allowances.

• Departmental Administration Expenses: Costs of administrative and supportive services that benefit common or joint departmental activities in dean's offices, departments, divisions and organized research units. These expenses include the costs of overall departmental administration, such as fiscal administration and personnel administration. They also include joint or shared administrative costs such as managing instruction and research in the department (see FASOM 05.05).

• Sponsored Projects Administration: Costs incurred by separate organizations established primarily to administer sponsored projects. Examples include grant and contract administration, purchasing, personnel administration, and editing and publishing research reports. These costs also include fringe benefit costs of applicable salaries and wages as well as a portion of general administration expenses, operation and maintenance expenses, and depreciation and use allowances.

• Student Administration and Services: Costs of administering student affairs and student services. These costs include expenses of deans of students, admissions offices, registrars, counseling and placement services, student advisors, student health and infirmary services, etc. They also include fringe benefit costs of applicable salaries and wages, as well as a portion of general administration expenses, operation and maintenance expenses, and depreciation and use allowances.

C. Cost Recovery

[1] Direct Cost Recovery
Direct costs are recovered from the federal agency involved through periodic billings or advances, often in the form of a letter of credit. Shared expenses are charged against the General Fund or other institutional grant funds.

[2] Indirect Cost Rates

Most grants and contracts provide for recovery of indirect costs. Recovery is based on indirect-cost percentage rates. These rates are established annually for each institution by the Controller's Division through negotiations with the Department of Health and Human Services (HHS). HHS negotiates the rates for all federal agencies involved in grant and contract agreements with institutions.

[3] Other Sponsoring Agencies

Rates negotiated with HHS also apply to agreements with other sponsoring agencies except state agencies. When the sponsor is another State of Oregon agency, the indirect cost recovery rate is at least 26% of total direct costs. This represents the federal cap for the administrative component of the indirect cost rate. If the state agency acts merely as a conduit for federal funds, the negotiated rate applies. The 26% minimum does not apply to inter-institutional agreements.

[4] Retroactive Rate

When an indirect cost rate is established retroactively, institutions are responsible for seeking retroactive adjustments to grants and contracts.

[5] Indirect Cost Recovery Entries

As grant and contract funds are expended, indirect costs are charged to the particular grant or contract fund and credited to the institutional Indirect Cost Clearing Fund pending distribution. Amounts accumulated in clearing funds are distributed periodically to the institutional Indirect Cost Recovery account, Chancellor's Office Indirect Cost Recovery account and institutional Building Use Credits Fund according to instructions from the Controller's Division.