Direct Charging of Administrative and Clerical Salaries to Federal Awards

Policy Statement

Harvard University requires that faculty and staff authorizing expenditures on federal grants, contracts and cooperative agreements ("awards") comply with the federal requirement that direct charging of administrative salaries occur only when circumstances exist that make the award unlike others or when the nature of the work performed requires an extensive amount of administrative or clerical support not normally provided by academic departments.

The University requires that direct-charged administrative salaries be:

- itemized in the proposal budget and approved by the sponsor,
- justified in writing by the specific duties outlined in the budget justification for the proposal,
- reviewed and approved by independent sponsored programs officials outside of the academic or research department from which the proposal budget originates, and
- reviewed as incurred to ensure that these salaries are charged only to sponsored awards in which they are included in the budget awarded by the sponsor and for which the Harvard approval of the justification has been sufficiently documented.

Reason for Policy

The Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions, Section F6b(2) states that "...salaries of administrative and clerical staff should normally be treated as [indirect] costs". Although the Circular does provide for "unlike circumstances" where direct charging could be justified the University must also comply with the requirement in Appendix A (CAS 9905.502) that universities classify costs consistently as either direct costs of projects or indirect costs benefiting multiple activities. Administrative costs charged improperly to federal awards result in unallowable costs, requiring reimbursement to the Government and, depending on severity and intentionality, penalties for the University, school or research personnel.
Who Must Comply

All Harvard University schools, tubs, local units, affiliate institutions, allied institutions, and University-wide initiatives.

Consideration for Administrative Salaries on Sponsored Awards

Administrative and clerical salaries must be itemized in project budgets.

For salaries and benefits of administrative or clerical staff, the proposal budget must identify the costs as direct-charged administrative expenses, list role(s) on the project and job title(s) of the individual(s), and describe the level of effort required and the duties to be performed.

Administrative and clerical salaries must be justified in writing.

The budget justification for a proposal that requests direct charging of administrative salaries must include a description of the unlike circumstances of the award or a description of the ways in which the nature of the work requires an amount of administrative support that is significantly greater than the routine level of administration provided by academic departments.

Federal guidance (OMB Circular A-21, Exhibit C) provides the following illustrative examples of "major projects" on which administrative and clerical salaries may be direct-charged:

- 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 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.

It should be noted that the six examples above are not the only types of awards in which direct charging of administrative salaries may be justified. Complex, multi-investigator awards involving multiple subagreements (including subawards or part-of accounts) may also qualify, as may other large or complex projects for which internal levels of administration provided by academic departments are clearly insufficient for proper management of the award.

Administrative salaries itemized in the budget must be identified specifically with the project activities. An adequate justification must include a description of the administrative tasks and an explanation of the ways in which the tasks relate to, and provide necessary benefit to, project activities.

**Justifications must be reviewed and approved by an independent sponsored programs office.**

The determination that administrative or clerical salaries may be charged to a federal award must not be based solely on the discretion of an individual investigator or department. A school or University office with responsibility outside of the department requesting the direct charging of administrative or clerical salaries must provide an objective evaluation and approval of the justification prepared by the academic department.

**Administrative and clerical salaries charged to awards must be reviewed.**

All Harvard faculty and staff responsible for the allocation of costs and for the review of sponsored financial reports throughout the lifecycle of the award must ensure that administrative salaries are charged only to projects for which such salaries have been approved per this Policy.

[Note: Non-federal awards often allow the University to include administrative or clerical salaries as direct costs on awards and non-federal sponsors differ on their requirements for these costs. Accordingly, this Policy does not apply to non-federal awards. All University faculty and staff are required to abide by the terms and conditions of any award from a non-federal sponsor.]

**Responsibilities**

The **principal investigator (PI)** and the **department** are responsible for documenting in the proposal the request for direct-charged administrative salaries in sufficient detail to describe the necessary benefit of the expense to the project. The budget justification must include a description of the specific administrative activity and an explanation of the reasons that the direct charging of administrative or clerical salaries is warranted. The project budget must indicate clearly the administrative salaries that are being justified as eligible for direct charging and must relate those salaries specifically to project activities. The PI and the department are responsible for ensuring that only approved administrative
salaries are direct-charged and that they are charged only to awards on which those particular administrative salaries have been approved. They are also responsible for identifying and removing any unapproved administrative charges during routine and comprehensive reviews of financial activity on all sponsored programs for which they are responsible.

The **school sponsored programs office** is responsible for reviewing and approving requests for administrative salaries included in proposal budgets, ensuring that the proposal justifies an amount of administrative or clerical support that is significantly greater than the level of such services routinely provided by the academic unit or explains that circumstances make the award unlike others. The school provides guidance to the investigator or department staff when inadequately justified administrative salaries appear on proposal budgets. The school provides an independent review and documents (by signing a school-specific form or by setting a flag in GMAS to indicate the presence of administrative salaries in the grant budget) its approval of any proposal that includes the direct charging of administrative salaries. Approval by the school indicates that an independent review of the salaries and circumstances has occurred, that there is sufficient justification of the circumstances to warrant the direct charging of administrative salaries, and that the salaries are budgeted explicitly and identified specifically with project activities.

The **submitting office** (the sponsored programs office submitting the proposal to the funding agency) is responsible for reviewing all proposal documentation for completeness and accuracy. The submitting office will confirm that a school-level review independent from the department submitting the proposal has been performed. The submitting office will also confirm that the salaries are budgeted explicitly, that the budgeted administrative salaries are identified with specific duties as outlined in the budget justification, and that the proposal includes an adequate justification of the circumstances warranting the direct charging of salaries. In the event that the submitting office considers a justification that had been approved at a school to be inadequate, the director of the submitting office will resolve the concern with the director of the approving office to ensure that all proposals submitted to the federal government comply with this Policy. The submitting office is responsible for setting and maintaining the flag in GMAS, Harvard's grants management application, indicating the approval status of the direct charging of administrative salaries.

For sponsored programs proposals originating from schools without school-level sponsored programs officials, the sponsored programs office submitting the proposal to the funding agency is responsible for the school duties and approvals described above.

For sponsored programs proposals originating from schools in which the school-level sponsored programs officials routinely submit such proposals directly to the funding agency, the submitting office is responsible for the duties and approvals described above, except for those performed by the principal investigator or the department.

The **Office for Sponsored Programs (OSP)** is responsible for periodic review of costs incurred on sponsored awards, including review of direct-charged administrative salaries. OSP analysts and
specialists are responsible for verifying that direct-charged administrative salaries occur only on awards for which an approval of the direct charging of those salaries is indicated in GMAS and for which the sponsor-approved budget for the award (not the proposal budget) includes administrative salaries. OSP is responsible for maintaining this Policy.

### Related Policies

Sponsored Expenditure policies

### Related Documents

OMB Circular A-21, Cost Principles for Determining Cost Applicable to Grants, Contracts, and Other Agreements with Educational Institutions in its entirety, but specifically the following:

- Section D. Direct Costs Section
- F.6. Departmental administration expenses / Parts (b)2. Salaries
- Exhibit C: Examples of "major project" where direct charging of administrative or clerical staff salaries may be appropriate
- Appendix A: CAS 9905.502 Consistency in allocating costs incurred for the same purpose by educational institutions

[Office of Management and Budget Interpretation July 13, 1994 (later incorporated into A-21)](pdf)

[Disclosure Statements for Harvard University, Harvard Medical School, and the Harvard School of Public Health](pdf)

### Forms

There are no University-wide forms for this Policy at this time. School-level offices may require specific forms.

### Contacts and Subject Matter Experts

- Faculty of Arts and Sciences Research Administration Services
- Harvard Medical School Sponsored Programs Administration
- Harvard School of Public Health Sponsored Programs Administration
- Office for Sponsored Programs
- Financial Deans

### Definitions
Appendix

GMAS Guidance for Direct Charging of Administrative Salaries

FAQs

(1) Q. When can administrative salaries be charged to a federal award?

A. The Office of Management and Budget's (OMB) Circular A-21 indicates that administrative salaries are normally considered indirect expenses benefiting multiple activities, but, under certain exceptional conditions, described in federal regulations as "unlike circumstances," these costs can be charged directly to federal awards. "Unlike circumstances," for the purposes of administrative support, are those in which the level of support exceeds, or cannot otherwise be met by, the normal level of assistance provided by departments or centers. In the particular language of OMB Circular A-21, direct charging of administrative salaries is allowed when a "major project or activity" budgets explicitly for administrative support. According to the OMB Circular A-21 definition, a "major project" is one that requires a level of administrative support that exceeds the level or nature of services normally provided to support sponsored agreements. Page 2 of the Policy lists several examples of qualifying situations.

(2) Q. What amount of effort can be justified?

A. The percentage of salary that can be justified for direct charging to a federal award must be commensurate with the level of effort required by the administrator to perform the specific tasks on the award. Very low levels of effort (below 5%, for example) indicate that perhaps the level of support required is not extraordinary or that unlike circumstances may not exist that would necessitate the direct charging of administrative salaries.

Please note: some schools at the University previously required a 25% effort minimum; this requirement has now been eliminated.

(3) Q. What constitutes federal sponsor approval?

A. For purposes of this policy, sponsor approval can be inferred when the federal sponsor has not specifically excluded, or "red-lined," the administrative salaries from the awarded budget for a proposal that contains a justification approved according to this Policy.

Please note: an award notice from a federal sponsor does not necessarily, in itself, mean that every item in the budget is approved; the expense could still be deemed unallowable if the requirements of OMB Circular A-21 are not met.

(4) Q. What are "unlike circumstances?"
A. The term "unlike circumstance" comes from several citations in OMB's Circular A-21 – Cost Principles for Educational Institutions. The government requires that costs incurred for the same purposes be charged either as direct costs or as indirect costs via the federally negotiated indirect cost rate. Costs (such as administrative salaries) that are normally charged indirectly must be incurred for reasons and in circumstances that are substantially different from most sponsored awards in order to be charged directly to a grant. Page 2 of the Policy lists several examples.

(5) Q. What types of federal grants could qualify for direct charging of administrative salaries?

A. The type or category of federal award does not determine the allowability of direct charging administrative salaries. Rather, the specific activities and circumstances of each award must be assessed to determine whether direct charging of administration is justifiable. The written justification for the direct charging of administrative salaries must include a description of the "unlike circumstances" dictating that the normal level of administrative support provided by departments would not be adequate (see question #3). While it is true that some types of awards may qualify more easily for the direct charging of administrative salaries, each justification must address the activities of that award specifically. One type of federal grant that may qualify is the large and complex NIH award known as a P01 / Program Project. These awards often require that the University provide administrative support for functions or activities that are not among the routine support activities provided by academic departments. An agreement with multiple subcontracts, project sites, and/or many trainees and fellows could also qualify for the direct charging of administrative salaries if the complexity and volume of the project requires monitoring and management at a level that exceeds the level normally provided.

(6) Q. What if I did not request funding for administrative salaries at the proposal stage, but my award is under the federal administrative requirements known as "Expanded Authorities," in which many cost-related and prior-approval requirements are waived. May I add administrative salaries after the award has been made?

A. Even though your award may be under Expanded Authorities, any direct charging of administrative salaries that has not been approved previously must be approved by the school-level sponsored programs office and the submitting office, as outlined in the Policy.

(7) Q. I am submitting a modular budget for an NIH proposal. NIH does not require a detailed budget. Do I need to identify any administrative salaries that I plan to direct-charge at this time?

A. Yes. The expenses should be identified and justified in the proposal and must be approved by the school-level sponsored programs office and the submitting office. Please note: modular budgets are typically for research projects with expenses under $250,000. These projects would not ordinarily meet the unlike circumstances requirement, and they do not usually require a level of administrative support beyond what is normally provided by an academic department.

(8) Q. I am submitting a standard R01 application that includes one subagreement. The institution to which the subaward was awarded has included administrative salaries as a direct charge, but
the submitting office negotiating the subaward has determined that the project does not warrant the direct charging of administrative salaries. What should I do?

A. As the prime award recipient, Harvard is responsible for ensuring that the expenses charged to the grant are in compliance with OMB Circular A-21 cost principles. The Harvard proposing department or submitting office should work with the subaward institution to remove the direct charge of administrative salaries from the subaward budget. In most cases where the Harvard portion of the project budget does not include administrative salaries, it would be highly unusual for the subaward to include administrative costs. This guidance applies to subawards made between Harvard schools, known as "part-of" accounts, as well.

(9) Q. What if I receive Harvard approval to direct-charge administrative salaries and the budget awarded by the federal sponsor reflects administrative salaries, but the level of administrative effort required is lower than the budgeted amount? May I continue to charge the budgeted amount of salary to the federal award?

A. No. As with all direct costs allocated to a federal award, the costs are allowable or chargeable "in accordance with the relative benefit received..."by the award (OMB Circular A-21 Section C4a). If the level of administrative support actually required is lower than in the sponsor's awarded budget, you cannot continue to charge the excess to the award simply because you received University approval to include it in the proposal. You may, however, continue to charge the amount of administrative effort that is actually being expended, unless that effort is minimal, in which case it should be charged to a non-federal account.

(10) Q. May administrative salaries for staff to fulfill additional reporting and monitoring requirements under ARRA be direct-charged to ARRA awards?

A. No. The Office of Management and Budget and the National Institutes of Health have both indicated that the additional reporting and monitoring requirements of ARRA funding do not constitute "unlike circumstances" and do not require a level of administrative support that would allow these funds to qualify as "major projects." The salaries of the research administrators referred to by the title "stimulus specialist" at Harvard are unallowable as direct charges on ARRA funding.

(11) Q. At Harvard, the job category for an employee determines the object code in the General Ledger where the salary is recorded. If I am concerned about unallowable administrative salaries appearing on federal awards, which object codes should I review for unjustified salary costs?

A. The following object codes record and report salaries for administrative services:

6050 Exempt Staff Salaries + Wages
6070 Clerical/Technical Nonexempt Staff Salaries + Wages
6071 LTHT Clerical/Technical Nonexempt Staff Salaries + Wages

(12) Q. How will this new policy be implemented
A. This policy has been approved by the Vice President for Finance and the Provost. It will be posted on the OSP website with other sponsored policies, and proposals submitted from Harvard will comply with the requirements of the Policy following the effective date, December 15, 2009.

(13) Q. Will there be any changes to GMAS as a result of this new policy?

A. There will be some minor rewording of the radio buttons that indicate the status of the approvals required according to this Policy. A separate GMAS procedural document is attached as Appendix A of the policy.

(14) Q. Will there be any new object codes as a result of this new policy?

A. No. Administrative salaries will continue to be recorded and reported in object codes 6050, 6070, and 6071. Further review of procedures and process improvements may result over time.

(15) Q. May I direct-charge administrative salaries to a non-federal award?

A. Non-federal sponsors often allow the University to include administrative or clerical expenses as direct costs on awards. The new policy does not apply to non-federal awards.

(16) Q. What constitutes the documentation of approval by the school or submitting office?

A. School signature on a Dean's Approval Form or other paper routing sheet, or equivalent electronic approval in GMAS by a school submitting office, serves as documentation of school approval. In either case, flags will be set in GMAS to indicate that the proposal includes the direct charging of administrative salaries.

(17) Q. What if administrative salaries are being charged to a federal grant that began under policies in place at the University prior to the effective date of this policy? Do I have to remove these charges from the grant?

A. Grants commencing before the effective date of this policy that received approval to direct-charge administrative salaries may continue to charge these salaries until the award is submitted to the sponsor for competitive review or renewal. When the award is submitted to the sponsor for competitive review or renewal, the proposal will be expected to comply with this Policy. As always, unallowable costs on any federal award must be moved to a non-federal funding source. It is strongly recommended that project personnel work with department, school, and central offices to find alternate funding for administrators.

If at any time, there is reason to believe that direct charges of administrative salary costs to a grant is inappropriate under applicable federal grants standards, then you should immediately notify departmental administrators, School grants administration staff, and OSP, so that the matter can be discussed and analyzed.
Revision History

7/25/13 – Added to OSP website in PDF format