

15.01.01 Administration of Sponsored Agreements – Research and Other

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Regulation Statement

Presented herein are administrative regulations that must be observed by the universities, agencies, and the health science center of The Texas A&M University System (system) for all sponsored agreements. The term “institution,” as used in this regulation, shall include all system members and is in accordance with its use in Office of Management and Budget (OMB) Circulars A-21, A-110 and A-133.

Reason for Regulation

Sponsored agreements establish requirements for accepting funds in support of a specific project or program. The requirements included in these agreements usually specify time periods for expending funds and contain provisions for financial and technical reporting and intellectual property assignments, including patents and copyrights. This regulation provides guidance which attempts to reduce the likelihood of improperly executed or managed sponsored activities.

Procedures and Responsibilities

1. GENERAL

1.1 In accepting sponsored agreements, system members are obligated to fulfill the purposes, and to meet the requirements, of the sponsored agreement. Expenditures of funds or use of resources provided by the sponsor or cost shared by the system member are governed by the sponsored agreement and system policies and regulations. Federal-sponsored agreements are subject to OMB Circulars A-21 (*Cost Principles for Educational Institutions*), A-110 (*Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*) and A-133 (*Audits of States, Local Governments, and Non-Profit Organizations*).

1.2 The system is entrusted with the use of public funds, facilities, and other property for the welfare of the public. Such funds or facilities cannot be diverted, nor personnel assigned,

to serve the specific interests of a private firm or individual unless the costs for such use of facilities and personnel are reimbursed under the terms of a specific sponsored agreement. Each faculty and staff member who participates in sponsored research or other sponsored agreements is responsible for ensuring that any research or other activity undertaken or recommended for approval is clearly consistent with this regulation.

2. TYPES OF SPONSORED AGREEMENTS

2.1 Sponsored agreements are projects and activities that are supported (in whole or in part) with funds, materials, or other resources provided by sources outside the system. Sponsored agreements are included in the major functions of an institution as defined below:

- (a) Research – a systematic study directed toward fuller scientific knowledge or understanding of the subject studied (OMB Circular A-110 (A)(dd)).
- (b) Instruction – expenses for all activities that are part of an institution’s instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions should be included. This term does not include the training of individuals in research techniques (commonly referred to as research training) as described in 2.1(c)(1) Sponsored research. This category includes:
 - (1) Sponsored instruction and training – specific instructional or training activities established by grant, contract, or cooperative agreement.
 - (2) Departmental research – research development and scholarly activities that are not organized research and, consequently, are not separately budgeted and accounted for. This category excludes expenses for those academic personnel whose primary activity is administration; for example, academic deans.
- (c) Organized research – all expenses for activities specifically organized to produce research, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. Subject to these conditions, the category includes expenses for individual and/or project research as well as that of institutes and research centers. This category does not include all sponsored programs nor is it necessarily limited to sponsored research, since internally supported research programs, if separately budgeted, might be included in this category under the circumstances described. Expenses for departmental research that are separately budgeted are included in this category. However, the research category does not include expenses for departmental research that are not separately budgeted. Such expenses are included in the instructional category. This category includes the following:
 - (1) Sponsored research – all research and development activities that are externally sponsored by federal and non-federal agencies and organizations. This term includes activities involving the training of individuals in research techniques (commonly called research training) where such activities utilize the same

facilities as other research and development activities and where such activities are not included in the instruction function.

- (2) University research – all research and development activities that are separately budgeted and accounted for by the institution under an internal application of institutional funds.
- (d) Other sponsored activities – sponsored programs and projects which involve the performance of work other than instruction and organized research. Examples are health service projects and community service programs.
- (e) Other institutional activities – all activities of an institution except: (a) those described above, (b) facilities and administrative (F&A) costs, formerly known as indirect cost activities, and (c) specialized service facilities such as Cyclotron and Proving Grounds. Other institutional activities include operation of residence halls, dining halls, hospitals and clinics, student unions, intercollegiate athletics, bookstores, faculty housing, student apartments, guest houses, chapels, theaters, public museums, and other similar auxiliary enterprises. This definition also includes any other categories of activities, costs of which are unallowable to sponsored agreements, unless otherwise indicated in the agreements.

2.2 Definitions of major types of sponsored agreements include the following:

- (a) Contracts – an award by a sponsor to procure goods or services (including research) needed by the sponsor. Contracts awarded by federal agencies are usually subject to the *Federal Acquisition Regulation*, jointly issued by the Department of Defense, GSA, and the National Aeronautics and Space Administration.
 - (1) Cost Reimbursement Contract – a contract issued on the basis of an estimate of the cost of performing the work arrived at by negotiation between the sponsor and the contractor. The contract provides for payment to the contractor for costs actually incurred up to a ceiling amount equal to the total estimated cost stated in the contract. The contractor is normally excused from further performance after the contractor's costs reach the ceiling, unless the sponsor increases the ceiling.
 - (2) Cost-Plus-A-Fee Contract – a cost-reimbursement contract under which the contractor is paid a fee in addition to costs incurred. The fee may be set as a fixed percentage of the total estimated cost (a cost-plus-fixed-fee contract), or it may vary depending upon specified parameters such as cost, performance or schedule incentives set at the time the contract is negotiated (a cost-plus-incentive-fee contract). While cost-plus-a-fee contracts are valid arrangements, they are not normally used for sponsored agreements of the system.
 - (3) Fixed Price Contract – a contract in which the contractor agrees to deliver or to perform the contract work within the period specified at a fixed price agreed upon in advance and payable regardless of the actual costs.

- (4) Fixed Price Contract with Price Revision – a fixed price contract that contains a provision for negotiating the price, sometimes either downward or upward within preset limits, after the work has been completed.
- (b) Grants – an award of financial assistance to accomplish a public purpose. Grants may be in the form of cash or property. The cash or property is designated by the grantor to be used for a specific educational, research, or extension project or activity, thus serving a specific interest or objective of the grantor. Grants awarded by federal agencies are subject to OMB Circular A-110 and regulations established by the awarding agencies.
- (1) Project Grant – the most common form of grant. It provides funding for a specific project or program with a defined scope of work. Most project grants are for organized research.
- (2) Consortium Grant – a grant made to one institution/organization in support of a project in which the program is carried out through a cooperative arrangement between or among the grantee institution/organization and one or more participating institutions/organizations.
- (3) Demonstration Grant – a grant, generally of limited duration, made to establish or demonstrate the feasibility of a theory or approach.
- (4) Formula Grant – a type of grant awarded on the basis of some formula for distribution prescribed by legislation or executive directive. Examples are formula grants to agricultural experiment stations.
- (5) Grant-In-Aid – another name for a project grant or formula grant.
- (6) Step-Funded Grant – a project grant, usually for a period of three years, with the initial grant providing 100% of the funds for the first year, 2/3 of the funds for the second year and 1/3 for the third year. A year later, if the project is to be continued, the grant provides 1/3 of the funds for the second year, 1/3 for the third year and 1/3 for a fourth year.
- (c) Cooperative Agreement – an award of financial assistance, similar to a grant, except that “substantial involvement” is anticipated between the awarding agency and the recipient during performance of the project or activity. “Substantial involvement” means that the recipient can expect programmatic collaboration or participation from the awarding party in the management of the award. Cooperative agreements awarded by federal agencies are usually subject to the same administrative requirements as grants.

3. RESPONSIBILITY OF SYSTEM MEMBERS FOR PERFORMANCE OF SPONSORED AGREEMENTS

- 3.1 The chief executive officers (CEOs) of the system members have primary responsibility for the content, scope, quality, facilities, funding, and conduct of sponsored agreements under their jurisdiction. The CEO will normally assign responsibility for each project or

program to a principal investigator (PI) or a program administrator to assure satisfactory progress in the conduct of the work and compliance with the terms and conditions of agreements.

3.2 System members are responsible for having written procedures for the following areas:

- (a) preparation, approval, and submission of proposals for sponsored agreements;
- (b) negotiation and acceptance of sponsored agreements;
- (c) determination of allowability of costs on sponsored agreements;
- (d) documentation of costs charged to sponsored agreements;
- (e) recovery of all F&A costs, based on rates approved by the Department of Health and Human Services (DHHS); and
- (f) documentation and other aspects of cost sharing (see Section 11.6).

3.3 Compensation of faculty and staff members who participate in sponsored research and other sponsored agreements is governed by System Policy *31.01, Compensation*.

4. PREPARATION AND SUBMISSION OF PROPOSALS AND AGREEMENTS

4.1 Sponsored agreements will be conducted in accordance with the terms of a written agreement between the system member involved and the sponsor. The agreement will include, but is not limited to, the following:

- (a) statement of work, including specific responsibility of each party;
- (b) name or position of faculty or staff member directly responsible for the program;
- (c) the amount, terms of payment, and type of costs for which the funds may be expended;
- (d) F&A cost considerations;
- (e) provisions for progress and final reports; and
- (f) ownership of research results, patents, equipment, publications, and copyrights (System Policy *17.01, Intellectual Property Management and Commercialization*).

4.2 The initiative for establishing a sponsored agreement may be assumed either by a system member or an outside party. The CEO of each system member will prescribe written procedures for the preparation, approval, and submission of proposals. The procedures will designate those personnel authorized to initiate sponsored agreements with potential sponsors, to prepare proposals, to define the statement of work and time schedule, to conduct negotiations on the cost/price and terms of sponsored agreements, and to conduct

final negotiations. Proposals will be executed by the CEO or designee of the system member.

- 4.3 Personnel responsible for conducting negotiations will ensure that terms and conditions contained in a sponsor's regulations, manuals, or other publications that will constitute a part of the agreement are acceptable under system policy. Meeting such terms and conditions will become a legal obligation of the system member upon execution of the agreement. Further, the terms and conditions of a solicitation for proposal must be screened carefully to ensure that a sponsored agreement awarded as a result of a formal response to the solicitation will be in accordance with this system regulation.

5. AUTHORITY TO EXECUTE SPONSORED AGREEMENTS

Contracts (excluding construction contracts and classified contracts), grants, memoranda of agreement, and other legal instruments relating to sponsored agreements administered by a system member will be executed by the CEO or designee of the system member. If requested by a system member, the associate vice chancellor for budgets and accounting will review the documents for proper funding. All contracts related to sponsored agreements shall comply with System Policy 25.07, *Contract Administration*.

6. SPONSORED AGREEMENTS ADMINISTERED BY THE TEXAS A&M RESEARCH FOUNDATION

- 6.1 The Texas A&M Research Foundation (Research Foundation) is an independent, nonprofit organization affiliated with and representing the system and its members in sponsored arrangements with research sponsors from industry, government, foundations, private business organizations, and other nonprofit organizations.

- 6.2 Sponsored agreements administered by the Research Foundation will be executed by the CEO of the Research Foundation, with review by the affected member if an award contains significant deviations from the proposal or from standard clauses. The Research Foundation binds the system for performance by execution of an ancillary agreement with the system.

- 6.3 System personnel employed to work on sponsored agreements administered through the Research Foundation will follow System Regulation 33.99.10, *Personnel Employed on Contracts with Texas A&M Research Foundation*.

7. ALLOWABILITY AND DOCUMENTATION OF COSTS ON FEDERALLY SPONSORED AGREEMENTS

- 7.1 Regardless of whether they are treated as direct costs or F&A costs, the allowability of costs on sponsored agreements with federal agencies is governed by the cost accounting principles prescribed by OMB Circular A-21, *Cost Principles for Educational Institutions*. These cost principles are also used in determining the cost of work performed by educational institutions under subgrants, cost-reimbursement subcontracts, and other awards under federally sponsored agreements. Further, OMB Circular A-21 cost principles are used as a guide in the pricing of fixed-price or lump sum contracts and

subcontracts performed by educational institutions where estimated costs are used in determining the appropriate price.

7.2 The cost principles of OMB Circular A-21 do not apply to:

- (a) arrangements under which federal financing is in the form of loans, scholarships, fellowships, traineeships, or other fixed amounts based on such items as educational allowances or published tuition rates and fees of an institution;
- (b) capitation awards;
- (c) other awards under which the institution is not required to account to the federal government for actual costs incurred; or
- (d) conditional exemptions.

7.3 The System Office of Budgets and Accounting is responsible for ensuring that F&A cost proposals for federally sponsored agreements comply with the provisions of OMB Circular A-21. The chief financial officer (CFO) or designee of each system member is responsible for ensuring compliance with the federal cost principles for federally sponsored agreements administered by the member.

7.4 Unallowable costs must be separately identified in the accounting system by charging costs to specific expense object codes. The costs recorded in these expense object codes are excluded from the direct charges to federally sponsored agreements and are excluded from F&A cost pools. Additionally, directly associated costs of unallowable activities, as defined in *Cost Accounting Standard* 9905.505 (CAS 505), which is part of OMB Circular A-21, will also be excluded from charges to federally sponsored agreements unless expressly approved in accordance with OMB A-21 (i.e., alcohol and fund raising are normally unallowable as either direct or indirect costs, while salaries of administrative staff, office supplies, postage and local telephone, and memberships are unallowable as direct costs on federal awards). Directly associated costs of unallowable activities means any cost that is generated as a result of the incurrence of another cost and which would not have been incurred had the other cost not been incurred. For example, an employee takes a business associate on what is clearly a business entertainment trip. The entertainment costs of the trip are unallowable because entertainment expenses are considered unallowable under OMB Circular A-21. In this case, the employee's travel and subsistence expenses would be "directly associated" with the unallowable entertainment expense.

The following is a partial list of costs considered unallowable by OMB Circular A-21. (see OMB Circular A-21, Section J, *General Provisions for Selected Items of Cost*, for an exhaustive list and specific details as to what constitutes each item below).

- Advertising and public relations costs to promote the institution
- Alcoholic beverages
- Alumni/ae activities
- Bad debts

- Commencement and convocation costs (see A-21 (J)(8) for exceptions)
- Contingency provisions
- Defense and prosecution of criminal and civil proceedings, claims, appeals, and patent infringements (see A-21 (J)(13) for exceptions)
- Donations and contributions
- Entertainment costs
- Equipment and other capital expenditures (see A-21 (J)(18) for exceptions)
- Fines and penalties
- Goods or services for personal use
- Housing and personal living expenses of an institution's officers
- Insurance and indemnification
- Fund raising and investment costs (see A-21 (J)(20) for allowable costs in this category)
- Lobbying
- Losses on other sponsored agreements or contracts
- Membership costs in any civic, community, country club, or other social or dining club or organization
- Preagreement cost *
- Selling and marketing
- Student activity costs

* Pre-agreement costs up to 90 days are permitted by some federal programs under expanded authorities. Some non-federal programs also permit pre-agreement costs.

7.5 Each system member shall have written procedures for determining the allowability of costs of federally sponsored agreements and monitor those procedures according to OMB Circular A-110. Furthermore, recipients of federal awards are required to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes under OMB Circular A-110, as well as OMB Circular A-133. For additional information on system auditing practices, refer to System Policy 10.01, *Internal Auditing*. Auditing requirements on sponsored agreements administered by the Research Foundation will be performed by independent certified public accountants retained by the Research Foundation.

7.6 All costs charged to sponsored agreements must be adequately documented.

The documentation of costs such as supplies and travel should be appropriate to the specific type of expense involved (e.g., invoices, airline and hotel receipts, etc.).

8. TIME AND EFFORT REPORTING

8.1 Background

8.1.1 Effort reporting is a process mandated by the federal government to verify that direct labor charges (salaries and wages) to federally sponsored projects are reasonable and reflect actual work performed. As a recipient of federal funds, the

system is subject to financial accounting and reporting obligations designed to ensure that the charges to its federally sponsored projects are allowable and properly allocable to those projects. The management of effort reporting requires communication and coordination among offices within the system.

- 8.1.2 Total effort must equate to 100%. OMB Circular A-21, Section J.10.b(1)(c) states that “in an academic setting, teaching, research, service, and administration are often inextricably intermingled. A precise assessment of factors that contribute to costs is not always feasible, nor is it expected. Reliance, therefore, is placed on estimates in which a degree of tolerance is appropriate.” Section J.10.b(2)(a) states that “the payroll distribution system will (ii) reasonably reflect the activity for which the employee is compensated by the institution.”
- 8.1.3 The Institutional Based Salary (IBS) shall be used to compute salaries charged to sponsored projects unless sponsored policies further limit salary charges. IBS includes compensation for instruction, public service, research, and/or other activities. IBS excludes: fringe benefit payments; reimbursed expenses; temporary, supplemental compensation for incidental work; income earned outside of duties to the institution; and any portion of compensation deemed to be at-risk. IBS may or may not include additional payment for administrative duties in accordance with each system member’s written rules.
- 8.1.4 The CEO or designee of each system member shall manage and be responsible for the effort reporting compliance program for employees for which it has primary responsibility. The CEO or designee is responsible for managing the risk, including the appropriate knowledge and necessary authority to manage the risk. It is acknowledged that the CEO will work closely with the institutional compliance officer to ensure all specific risks are adequately mitigated and effectively monitored.

8.2 Effort Reporting Purpose, Requirements, Applicability, and Compliance

8.2.1 Purpose

The purpose of an effort reporting system is to provide a reasonable basis for distributing salary charges among direct activities (e.g., sponsored research, instruction, other sponsored activities, and cost sharing) and indirect activities (e.g., general administration, departmental administration, sponsored projects administration, academic dean’s office, operations and maintenance, and library operations). Effort directly related to sponsored projects and all other activities must be identified in the system member’s effort distribution and reporting process. Effort classifications are defined in *An Explanation of Effort Classifications for Subsidiary Ledger Accounts and Support Accounts within TAMUS As Interpreted from OMB Circular A-21*.

8.2.2 Requirements

8.2.2.1 Federal regulations applicable to sponsored projects at colleges and universities (OMB Circular A-21, Section J.10, entitled *Compensation for*

Personal Services) require that each institution maintain an acceptable effort reporting system.

8.2.2.2 The federal government requires an effort report when an individual is compensated by, or has agreed to contribute time to, a federally sponsored project. All faculty and staff (professorial, exempt and non-exempt staff, graduate students) who work on sponsored agreements are personally responsible to certify 100% of their total effort, with the amount of effort that they spent on sponsored projects separately identified. Without exception, these individuals must complete and submit effort reports. This includes:

(a) Individuals paid directly from any sponsored project.

(b) Individuals paid directly from any other non-sponsored funds who provide some effort on sponsored projects (cost sharing effort).

8.2.2.3 For graduate students and non-exempt staff working on sponsored projects, allocation of time to sponsored projects is often determined by the PI and/or the director of the research center. In these cases, each system member will be required to develop rules and procedures that best reflect the accurate assignment and certification of time and effort on sponsored activities.

8.2.2.4 Where the system member uses time cards or other forms of after-the-fact payroll documents as original documentation for payroll and payroll charges, such documents shall qualify as records for meeting the requirements set forth in OMB Circular A-21, Section J.10.c(2)(a,b,c,d,e) and this system policy.

8.2.3 Applicability

8.2.3.1 OMB Circular A-21 includes regulatory requirements for the reporting and certification of effort associated with federally sponsored projects and other non-sponsored activities. In compliance with the federal *Cost Accounting Standards*, this regulation applies the effort reporting requirements to all federally sponsored agreements, including federal flow through projects. While OMB Circular A-21 is the authoritative source regarding federal grants and contracts, many non-federal sponsors also refer to the OMB Circular A-21 as well. Therefore, a system member may determine that effort reporting will be performed for other types (i.e., state of Texas sponsors, local, private, or foreign) of sponsored projects, and not just federally sponsored projects.

8.2.3.2 In application of this requirement, it is recognized that a precise distribution of time is not feasible, but a reasonable distribution is necessary. To confirm that the distribution of effort represents a reasonable estimate of the work performed by faculty and other university

personnel, a reasonable variance (up to 10%) is allowed between the actual time spent and what is reported.

8.2.4 Compliance with Effort Reporting Requirements

Effort reporting is considered as a high risk area for many institutions. Failure to verify time and effort within the certification period or improper allocation of an employee's time according to a sponsored agreement can lead to breach of the agreement, loss of future awards, financial audit disallowances, and adverse publicity. Criminal charges may be brought against an individual who certifies a falsified report (Federal False Claims Act). Therefore, each system member and individual certifiers are required to document 100% of the effort for individuals paid or providing cost shared effort on federally sponsored projects.

8.2.5 Difference Between Effort Reporting and Payroll Distribution

Payroll distribution reports and effort reports are required for different purposes. Payroll distribution reports document the allocation of salary costs by account; while effort reports describe the allocation of 100% of an individual's actual time and effort for specific activities, whether or not reimbursed by a sponsor. Thus, effort reporting is separate from and can be independent of salary charges. Effort is not just a verification of the salary or payroll distribution. Cost-shared or contributed effort must also be included in effort reports.

8.3 Effort Reporting System Guidelines

8.3.1 Effort Reporting System Requirements

8.3.1.1 ACCESSIBILITY

Each system member will have an effort reporting system in an electronic, web-based format that allows access to users to facilitate timely certification. The system must allow the users to view effort reports, submit certifications, and allow administrators to run queries or reports to check the status of the certifications.

8.3.1.2 EFFORT REPORTING DATA

The effort reporting system must include, at a minimum, all individuals who were paid from a federally funded project, and/or provided cost sharing to a federally funded project during the reporting period covered. For those individuals who meet this criteria, the effort reporting system must include all payroll sources for the individual (including sources from other system members) to accurately report 100% effort. Members will have the option to expand the criteria to include individuals who were paid by or who provided cost shared effort to state, private, or other sponsors.

The system must calculate the 100% effort from an individual's base salary and exclude items such as bonuses, allowances, emoluments, etc.

The data must be derived from system payroll files and be checked for accuracy.

8.3.1.3 SECURITY

The effort reporting system must contain an adequate level of security to ensure confidence that the individuals certifying effort are authentic. The system should require a username and password login and also provide delegations of authority for instances when the individual is unable to sign. The individual with the delegation of authority must be someone who has first-hand knowledge of the individual's effort. (See Section 8.3.2.2 for designated individual exceptions.)

8.3.1.4 FREQUENCY

The effort reporting system will be based on after-the-fact confirmation and, at a minimum, the certifications will be processed on a semi-annual basis. It is recommended, however, that certifications be processed on a semester basis. (OMB Circular A-21, Section J.10.c(2)(e)).

8.3.2 Effort Reporting Monitoring

8.3.2.1 SIGNATURE PROCESS

Once the reports are made available in the system, the individuals have a maximum of 45 days to sign or submit their certifications in the system. If the certification is not signed within the specific time, then an e-mail reminder will be sent to the individual's departmental administrator to encourage that the effort certification and any necessary payroll correction be completed. If the certification is still not signed after a maximum of ninety (90) days, another e-mail reminder will be sent to the individual and the departmental administrator warning that the sponsored project account(s) could be frozen within a certain period if the certification has not been received. It will be the responsibility of each system member to determine the appropriate course of action after ninety (90) days.

8.3.2.2 DESIGNATED INDIVIDUAL'S CERTIFICATION ON BEHALF OF EMPLOYEE

A designated individual may certify a time and effort report on behalf of an employee as defined by a system member's rules and procedures. Examples include employees who have terminated employment and no longer have access to the time and effort system, graduate students who have their effort assigned by a PI, or an employee with extenuating circumstances such as illness. Other reasons may be further defined by each system member.

8.3.2.3 CORRECTIONS

The effort reporting system will include in the certification process the payroll corrections made during the reporting period. Payroll corrections made after the reporting period is completed will require the prior certification to be signed again.

8.4 Independent Internal Evaluation

8.4.1 Regularly Scheduled Systematic Review

System Internal Audit will provide periodic systematic reviews and evaluations of the effort reporting system for each system member in accordance with OMB Circular A-21, Section J.10.b(2)(f), which states, “The system will provide for independent internal evaluations to ensure the system’s effectiveness and compliance with the above standard.” The periodic reviews will be performed on a regularly scheduled basis with the schedule to be established by System Internal Audit.

8.4.2 Report Deficiencies and Recommendations

After the systematic review, System Internal Audit will provide a report detailing deficiencies and recommendations for correcting these deficiencies. OMB Circular A-21, J.10.b(2)(g) states, “For systems which meet these standards, the institution will not be required to provide additional support or documentation for the effort actually performed.”

9. CONSISTENT TREATMENT OF DIRECT COSTS AND FACILITIES AND ADMINISTRATIVE COSTS OF SPONSORED AGREEMENTS

9.1 Direct and F&A Costs

9.1.1 Direct Costs: Those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity or that can be directly assigned to such activity relatively easily with a high degree of accuracy. Examples of costs charged directly to a sponsored agreement are the compensation of employees for performance of work on the project, the costs of materials expended on the project, and other items of expense incurred for the project.

9.1.2 F&A Costs: Those costs that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity or any other institutional activity. Examples of F&A costs, which were formerly referred to as indirect costs, are general administrative expenses, departmental administration, sponsored projects administration, equipment and building use allowances, and physical plant operation and maintenance. These costs represent a real expense to the institution in the performance of sponsored agreements.

9.2 Consistent Treatment of Costs

9.2.1 Federal regulations require that the same types of costs be treated consistently as either direct costs or F&A costs. OMB Circular A-21 requires that all costs incurred for the same purpose, in like circumstances, be treated consistently as either direct costs or F&A costs. This requirement is intended to ensure that the same types of costs are not charged to federally sponsored agreements both as direct costs and as F&A costs. This concept is reinforced and emphasized in *Cost Accounting Standard 9905.502 (CAS 502)*, which is part of OMB Circular A-21, one of the standards that educational institutions are required to follow.

9.2.2 Certain types of costs, such as the salaries of administrative and clerical staff, office supplies, and postage are normally considered F&A costs. The same types of costs should not be charged directly to sponsored agreements. However, the circumstances related to a particular project influence whether there is an exception and an “unlike circumstance” exists. For example, postage, which is normally treated as an F&A cost, may be considered a direct cost when associated with a large quantity of survey questionnaires. This would constitute an “unlike circumstance” when compared with routine postage requirements. All exceptions or “unlike circumstances” must be fully documented in the project files (see Section 9.5 of this regulation for additional requirements).

9.3 Costs Normally Charged as Direct Costs

The following are common types of costs that should be directly charged to sponsored agreements when they can be specifically identified to the work performed under the agreements. These listings are not exhaustive.

(a) Salaries, Wages, Fringe Benefits:

- faculty
- extension faculty equivalents
- graduate research assistants
- post doctoral research associates
- research scientists
- research engineers
- research associates
- research support staff (e.g., machinists, scientific instrument makers, farm equipment operators)
- technicians
- undergraduate student workers

(b) Materials and Supplies:

- research supplies (e.g., beakers and flasks, batteries, gaskets)
- non-capitalized medical, scientific, and laboratory equipment
- chemicals and gases
- parts for machinery and equipment
- farm, ranch, and nursery supplies
- computer parts and supplies

- computer software
- (c) Other Direct Costs:
- contractual services (e.g., soil analysis, cyclotron services, photographers, videotaping services)
 - travel
 - rent and other facility costs of off-campus facilities
 - other professional services (e.g., architectural and engineering services)
 - reproduction services
 - communications services (including both local and long-distance)—local charges/costs are only to be charged as direct in special circumstances with documented justification
 - service charges for the proving grounds
 - depreciation or use allowances
 - maintenance and repair costs
 - material costs
 - patent costs
 - professional services costs
 - royalties and other costs for use of patents
 - transportation costs

9.4 Normal F&A Costs - Administrative and Clerical Salaries and Fringe Benefits

9.4.1 Section F(6)(b)(2) of OMB Circular A-21 states, “The salaries of administrative and clerical staff should normally be treated as F&A 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.” Exhibit C of Circular A-21 provides the following examples of “major projects” where direct charging of administrative or clerical staff salaries may be appropriate:

- *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 the campus.*
- *Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocol; and multiple project-related investigator coordination and communications.*

These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples.

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

- (a) they fit the major project examples listed in Exhibit C of OMB Circular A-21;
- (b) the individuals have responsibilities specifically related to the work of the project and the effort devoted to the project is documented;
- (c) the title(s), percent of effort, and salary amount(s) for the clerical/administrative position(s) are included in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging of the services are justified in the proposal; and
- (d) the sponsoring agency accepts the cost as part of the project's direct cost budget (i.e., does not specifically disapprove or disallow the cost in the award or other notification to the system member).

9.4.3 If an administrative or clerical salary meets the conditions in 9.4.2(a) and (b) above, but was not included in the approved budget of the sponsored agreement, the salary may be charged directly to the agreement only where the system member has rebudgeting authority under federal regulations or the terms of the sponsored agreement, and the charge is justified and approved by the system member CFO, or designee. The justification must be in writing and provide the same information that would have been provided to the sponsoring agency in the proposed project budget, and must explain why the salary was not in the original budget. Approval of these requests will be given where the member CFO, or designee, is satisfied that the sponsoring agency would have approved the cost had it been in the original budget.

9.5 Other Normal F&A Costs

9.5.1 The following costs are normally considered F&A. They may be charged directly only under special circumstances.

- (a) office supplies
- (b) postage

- (c) local telephone costs
- (d) memberships

Examples of special circumstances may include postage for a mass mailing required by a sponsored agreement or the local telephone costs associated with a hot-line required by a sponsored agreement. See OMB Circular A-21 F(6)(b)(1) for additional discussion of special circumstances.

9.5.2 Costs normally considered F&A costs may be directly charged only if they meet all of the following requirements:

- (a) the project has a special need for the item or service that is beyond the level of services normally provided;
- (b) the costs can be specifically identified to the work conducted under the project and are appropriately documented;
- (c) costs are specified in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal; and
- (d) sponsoring agency accepts the cost as part of the project's direct cost budget (i.e., does not specifically disapprove the cost in the award or other notification to the system member).

9.5.3 If the cost meets the conditions in 9.5.2(a) and (b) above, but was not included in the approved budget of the sponsored agreement, it may be charged directly to the agreement where the system member has rebudgeting authority under federal regulations or the terms of the sponsored agreement, and the charge is justified and approved by the system member CFO, or designee. The justification must be in writing and provide the same information that would have been provided to the sponsoring agency in the proposed budget, and must explain why the cost was not in the original budget. Approval of these requests will be given where the member CFO, or designee, is satisfied that the sponsoring agency would have approved the cost had it been in the original budget.

9.6 Costs that are normally treated as F&A, such as administrative and clerical salaries, may be charged directly to non-federal sponsored agreements if permitted by the sponsor's policies or otherwise agreed to by the sponsor.

10. FACILITIES AND ADMINISTRATIVE COST RATES AND RECOVERIES

10.1 The System Office of Budgets and Accounting is responsible for preparation of F&A cost rate proposals for federally sponsored agreements and for conducting negotiations to establish the rate with the DHHS, the cognizant agency for the system. This responsibility applies to F&A cost proposals of all system members. Each system member will provide, when requested, assistance in proposal preparation.

- 10.1.1 The F&A cost calculation is prepared by the System Office of Budgets and Accounting for ten of the system members. The ten system members included in this rate are: System Offices, Texas A&M University, Texas A&M University at Galveston, Texas AgriLife Research, Texas AgriLife Extension Service, Texas Engineering Experiment Station, Texas Engineering Extension Service, Texas Transportation Institute, Texas Forest Service, and The Texas A&M University System Health Science Center. Also incorporated into this rate is the Texas A&M Research Foundation, which is a blended component unit of the system. All other system members are responsible for preparing their own calculations and submitting them to the System Office of Budgets and Accounting for review and submission to DHHS when requested. In all cases, the System Office of Budgets and Accounting will negotiate F&A cost rates with the DHHS.
- 10.1.2 The negotiated F&A cost rates of all system members are applicable to sponsored agreements with federal, state, local and private sponsors. The estimated fringe benefit rate is used only for budget/proposal preparation. Actual fringe benefits are charged as direct costs on sponsored agreements. (See **Related Statutes, Policies, or Requirements** section for links to current rate schedules.)
- 10.2 It is the intent of the legislature that all state agencies and institutions establish procedures to recover all F&A costs based on the rates negotiated with the DHHS. Any exceptions to the use of the negotiated rate will require a statement of explanation to be included in the internal member routing documentation indicating the benefits to the system and the state of Texas that justify cost sharing a portion of the F&A costs of a particular program by the system member, and must have CEO, or designee, approval. In other words, only the CEO, or designee, has authority to deviate from the negotiated F&A cost rate when it is in the best interest of the system member and the state of Texas.
- 10.3 The following are guidelines to be observed in establishing sponsored agreement terms for recovery of F&A costs:
- (a) Agreements with federal agencies will provide for F&A cost recovery at the rates negotiated by the system with the DHHS, except: (a) where the F&A cost reimbursable by a federal agency on a particular project is fixed by statute or regulation, or (b) where other circumstances dictate the necessity for accepting a lesser F&A cost rate.
 - (b) Agreements with Texas state agencies and political subdivisions, at the option of the system member, except where the agreement is funded with federal flow-through funds, may provide for cost sharing of F&A costs with full justification for such cost sharing.
 - (c) Agreements with private business organizations will provide for F&A cost recovery at the rates negotiated by the system with the DHHS unless there is suitable compensation made for the difference between the F&A recovery and the negotiated F&A rate.

- (d) Agreements with private foundations will provide for F&A cost recovery at the rates negotiated by the system with the DHHS, except where precluded by regulations of the foundation.

11. COST SHARING

11.1 Cost sharing is the portion of the total project costs of any sponsored agreement that is not provided by the sponsor (i.e., not charged to the sponsored agreement account(s)). Cost sharing occurs whenever a system member is required or has volunteered to participate in either direct or F&A costs of a sponsored agreement. Cost sharing should be engaged in only when:

- mandated by the sponsor;
- needed to accurately reflect the level of effort required to conduct the project; or
- necessary due to the competitive nature of the award.

11.2 Mandatory Committed, Voluntary Committed, and Voluntary Uncommitted Cost Sharing:

(a) **Mandatory Committed Cost Sharing:** A cost contribution explicitly required by the sponsor's policies and incorporated into the proposal as a condition of the award. These costs must be captured in the payroll and accounting records of the institution.

(b) **Voluntary Committed Cost Sharing:** A cost contribution not required by the sponsor but voluntarily offered in the proposal as a condition of the award. Cost sharing not quantified in the original proposal may subsequently be voluntarily contributed by a system member because sponsor funds are not sufficient to perform the agreed upon scope of the work. These costs must be captured in the payroll and accounting records of the institution. Examples of post-award cost sharing obligations include:

- the sponsor does not fund the project at the level of work requested in the proposal and the full amount is needed to accomplish the scope of the work. If system resources are committed to the project, then cost sharing has occurred.
- an overrun occurs on a sponsored agreement account. If the overrun is covered by system resources, it must be identified as cost sharing.

(c) **Voluntary Uncommitted Cost Sharing**

Voluntary Uncommitted Cost Sharing effort is defined by the OMB as "university faculty (including senior researchers) effort that is over and above that which is committed and budgeted for a sponsored agreement," and is faculty-donated additional time above that agreed to (committed) as part of the award. These costs are excluded from the payroll and accounting records of the institution.

11.3 Criteria for Cost Sharing

To qualify as cost sharing, costs must be all of the following:

- (a) allowable and allocable under OMB Circular A-21 and the terms of the sponsored agreement;
- (b) verifiable through effort reports or other appropriate documentation;
- (c) necessary and directly related to the project objectives; and
- (d) in compliance with the provisions set forth in OMB Circular A-110 or in the terms of the sponsored agreement.

The costs must not be:

- (a) included as cost sharing for any other project; or
- (b) paid by the sponsor under another award (federal funds must not be used as cost sharing on another federal project without prior approval).

11.4 Allowable Forms of Cost Sharing Expenses

Costs treated as direct costs on sponsored agreements may be used to meet a cost sharing obligation. Costs included in F&A costs may not (refer to Section 11.4 (b) for cost sharing through reductions in F&A rates). The following is a partial list of allowable forms of cost sharing:

(a) Direct expenses

- (1) Effort of the PI and/or employees committed to sponsored agreements, including their associated benefits costs;
- (2) Tuition, fees, and stipends related to work performed by graduate students on sponsored agreements;
- (3) Cost of equipment purchases when the purchase of equipment is necessary for, and dedicated to, the successful completion of the project;

Note: Existing equipment made available for, but not dedicated to, the performance of sponsored agreements is not considered cost sharing

- (4) laboratory supplies;
- (5) travel.

(b) F&A cost rate

- (1) Waived or reduced F&A costs. This is the difference between the applicable negotiated F&A cost rate and the amount of F&A costs awarded by the sponsor. This amount may be used as cost sharing if approved by the sponsor (also see Section 10.2 of this regulation).
- (2) When the direct expenses are cost shared, the associated F&A rate is automatically cost shared.

- (c) Examples of expenditures which may not be used as cost sharing:
 - (1) Expenditures normally treated as F&A, such as administrative salaries and office supplies;
 - (2) Unallowable costs, such as alcoholic beverages, entertainment, etc.
- (d) If cost sharing is required or intended, it should be identified in the proposed budget.

11.5 Documentation

11.5.1 All types of cost sharing must be documented and identifiable in the system member's accounting system, with the exception being waived F&A rates discussed in Section 11.4. These waived rates should not be documented in the system member's accounting system and can be easily calculated from the appropriate cost base when cost sharing is reported to the sponsor. If cost sharing is accepted by the sponsor as a condition of the award, accurate records must be maintained to verify that these funds have been provided through the use of system resources. Cost sharing, whether voluntary or mandatory, will be accounted for by separate accounts. Cost shared resources are mutually exclusive. That is, in no instance may the same dollars be used as cost share for more than one grant. The costs charged to those accounts will be documented in the same way as costs charged to sponsored agreements. For example, if the cost sharing is in the form of a salary contribution, the contribution will be documented by the time and effort certification system. If the contribution is in the form of travel costs, the costs will be documented in the same form as costs to travel (i.e., airline and hotel receipts). An alternative approach may be used if the alternate method adequately documents the costs, subject to approval by the System Office of Budgets and Accounting.

11.5.2 Cost sharing records are also used in calculating F&A cost rates. Excessive or unnecessary cost sharing can have the effect of reducing the F&A cost rate.

11.6 Responsibilities of System Members for Cost Sharing

Voluntary cost sharing is strongly discouraged (i.e., unless deemed necessary due to the competitive nature for a specific award), as these arrangements involve unique accounting procedures and require funding resources from the system and its members. Cost sharing arrangements also necessitate increased monitoring to ensure compliance. It is the responsibility of the CEO, or designee, to keep voluntary cost sharing to a minimum; to ensure that cost sharing is documented and readily identifiable in the accounting system; to set procedures for when prior approval must be given for cost sharing; and to set procedures for determining when a cost sharing obligation has occurred so that it will be properly documented.

12. OWNERSHIP OF PROGRAM RESULTS AND DATA

The policy governing administration of patents, including payment of royalties is System Policy 17.01, *Intellectual Property Management and Commercialization*.

13. EQUIPMENT

Management of equipment funded or furnished by sponsors is subject to the rules and regulations of the sponsor or terms of the agreement under which funds for equipment are acquired. All equipment acquired in connection with sponsored agreements, except those acquired by the Research Foundation, will be managed in accordance with System Regulation 21.99.05, *Fixed Asset Management*. Equipment acquired by the Research Foundation will be managed according to the Research Foundation's internal policies.

14. STATE REVIEW OF FEDERAL GRANT AND LOAN ASSISTANCE APPLICATIONS

State and federal requirements for processing of certain federal grant and loan assistance applications are presented in System Regulation 15.99.04, *State Review of Federal Grants and Loans*.

Related Statutes, Policies, or Requirements

[OMB Circular No. A-21, Cost Principles for Educational Institutions](#)

[OMB Circular No. A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations](#)

[OMB Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations](#)

[Federal Acquisition Regulation](#)

[System Policy 10.01, Internal Auditing](#)

[System Policy 17.01, Intellectual Property Management and Commercialization](#)

[System Policy 25.07, Contract Administration](#)

[System Regulation 15.99.04, State Review of Federal Grants and Loans](#)

[System Regulation 21.99.05, Fixed Asset Management](#)

[System Regulation 33.99.10, Personnel Employed on Contracts with Texas A&M Research Foundation](#)

[The Texas A&M University System Facilities and Administrative \(F&A\) Cost Rates](#)

[The Texas A&M University System Fringe Benefit Rates](#)

Definitions

See Section 2 of this regulation for an exhaustive list of definitions on sponsored agreements, specifically including definitions of the following terms: Sponsored Agreements, Instruction, Sponsored Instruction and Training, Departmental Research, Research, Organized Research, Sponsored Research, University Research, Other Sponsored Activities, Other Institutional Activities, Contracts, Cost Reimbursement Contract, Cost-Plus-A-Fee Contract, Fixed Price Contract, Fixed Price Contract with Price Revision, Grants, Project Grant, Consortium Grant, Demonstration Grant, Formula Grant, Grant-In-Aid, Step-Funded Grant, and Cooperative Agreement.

Cost sharing or Matching – project costs not borne by the sponsor. Cost sharing funds may come from an outside source in the form of cash contributions, volunteer services, or donated property; from the entity’s own funds; or from shared resources or facilities. If the award is federal, only acceptable non-federal costs qualify as cost sharing.

Designated Individual – a supervisor or other designee (e.g., PI) who is deemed to have knowledge of the work performed by the individual on a sponsored project or projects.

Direct costs – 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 high degree of accuracy.

Effort – the amount of time spent on any activity expressed as a percentage of total institutional activities for which an individual is compensated by a system member.

Effort Certification – a method of confirming that the effort supported or paid by the funding source has been performed, and effort expended in support of a project (but not paid by the funding source) has been performed.

Facilities and Administrative (F&A) costs or Indirect costs – resources earned by an institution as a result of conducting sponsored projects. F&A cost rates are negotiated with the federal government and are applied to sponsored project direct expenditures to compensate an institution for indirect or overhead costs such as the use of its facilities and administrative services provided to the projects. F&A recoveries represent unrestricted resources (from an accounting classification standpoint) when received by the institution.

Individual, as it relates to time and effort – anyone who is compensated for effort and/or committed effort on a sponsored project.

Institutional Base Salary or IBS – the total guaranteed annual compensation an Individual receives from a system member whether the individual’s time is spent on research, teaching, patient care or other activities.

Primary Individual, as it relates to time and effort – a person listed as principal investigator (PI), project director, co-investigator, co-project director, or a person with comparable responsibilities on a sponsored project. This individual typically carries a faculty appointment.

Sponsored Project or Sponsored Activity or Sponsored Program – an externally funded activity that is governed by specific agreement terms and conditions. Such a project/activity/program must be separately budgeted and accounted for, subject to terms of the sponsoring organization, and may include grants, contracts, federal formula funds, and cooperative agreements for research, instruction, and other sponsored activities.

Supporting Individual, as it relates to time and effort – an employee other than a primary individual who has expended effort on a sponsored program. This individual may or may not have been identified in the proposal and the award and typically does not have committed effort greater than the amount paid on a specific sponsored program.

Contact Office

The System Office of Budgets and Accounting
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