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**PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO GRANTS,  
CONTRACTS, AND OTHER AGREEMENTS WITH  
EDUCATIONAL INSTITUTIONS**

**B. Definition of terms.**

1. *Major functions of an institution* refers to **instruction**, **organized research**, **other sponsored activities** and **other institutional activities** as defined below:

a. **Instruction** means the teaching and training activities of an institution. Except for research training as provided in subsection b, this term includes all teaching and training activities, whether they are offered for credits toward a degree or certificate or on a non-credit basis, and whether they are offered through regular academic departments or separate divisions, such as a summer school division or an extension division. Also considered part of this major function are departmental research, and, where agreed to, university research.

(1) *Sponsored instruction and training* means specific instructional or training activity established by grant, contract, or cooperative agreement. For purposes of the cost principles, this activity may be considered a major function even though an institution's accounting treatment may include it in the instruction function.

(2) *Departmental research* means research, development and scholarly activities that are not organized research and, consequently, are not separately budgeted and accounted for. Departmental research, for purposes of this document, is not considered as a major function, but as a part of the instruction function of the institution.

b. **Organized research** means all research and development activities of an institution that are separately budgeted and accounted for. It includes:

(1) *Sponsored research* means all research and development activities that are 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* means all research and development activities that are separately budgeted and accounted for by the institution under an internal application of institutional funds. University research, for purposes of this document, shall be combined with sponsored research under the function of organized research.

c. **Other sponsored activities** means programs and projects financed by Federal and non-Federal agencies and organizations which involve the performance of work other than instruction and organized research. Examples of such programs and projects are health service projects, and community service programs. However, when any of these activities are undertaken by the institution without outside support, they may be classified as other institutional activities.

d. **Other institutional activities** means all activities of an institution except:

(1) instruction, departmental research, organized research, and other sponsored activities, as defined above;

(2) F&A **[my note: i.e., “indirect” or “overhead”]** cost activities identified in Section F; and

(3) specialized service facilities described in Section J.44. 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.

## **J. General provisions for selected items of cost.**

### **8. Compensation for personal services**

a. *General.* Compensation for personal services covers all amounts paid currently or accrued by the institution for services of employees rendered during the period of performance under sponsored agreements....

b. *Payroll distribution.*

(1) *General Principles.*

(2) Criteria for Acceptable Methods.

(a) The payroll distribution system will (i) be incorporated into the official records of the institution, (ii) reasonably reflect **the activity [my note: see section B.1, above]** for which the employee is compensated by the institution, and (iii) encompass both sponsored and **all other activities** on an integrated basis...

(c) The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and **each of the categories of activity [my note: see section B.1, above]**...

(f) The system will provide for independent internal evaluations to ensure the system's effectiveness and compliance with the above standards.

c. Examples of Acceptable Methods for Payroll Distribution:

(1) *Plan-Confirmation:* Under this method, the distribution of salaries and wages of professorial and professional staff applicable to sponsored agreements is based on budgeted, planned, or assigned work activity, updated to reflect any significant changes in work distribution **[my note: i.e., in UK's terminology, the “distribution of effort” of “D.O.E.”]**. A plan-confirmation system used for salaries and wages charged directly or indirectly to sponsored agreements will meet the following standards:

(a) A system of budgeted, planned, or assigned work activity will be incorporated into the official records of the institution and encompass both

sponsored and all other activities on an integrated basis. The system may include the use of subsidiary records.

(b) The system will reasonably reflect only the activity for which the employee is compensated by the institution (compensation for incidental work described in subsection a need not be included). Practices vary among institutions and within institutions as to the activity constituting a full workload. Hence, the system will reflect categories of activities expressed as a percentage distribution of total activities. (See Section H for treatment of F&A costs under the simplified method for small institutions.)

(c) The system **will reflect activity applicable** to each sponsored agreement and **to each category [my note: i.e., instruction, organized research, other sponsored activities and other institutional activities, see section B.1, above]** needed to identify F&A costs and the functions to which they are allocable. The system may treat F&A cost activities initially within a residual category and subsequently determine them by alternate methods as discussed in subsection b.(2)(c).

(d) The system will provide for modification of an individual's salary or salary distribution commensurate with a significant change in the employee's work activity. Short-term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term, such as an academic period. Whenever it is apparent that a significant change in work activity which is directly or indirectly charged to sponsored agreements will occur or has occurred, the change will be documented over the signature of a responsible official and entered into the system.

(e) **At least annually a statement will be signed** by the employee, principal investigator, or responsible official(s) **using suitable means of verification that the work was performed**, stating that salaries and wages charged to sponsored agreements as direct charges, and to residual, F&A cost or other categories are reasonable in relation to work performed.

(f) The system **will provide for independent internal evaluation** to ensure the system's integrity and compliance with the above standards.

(g) In the use of this method, an institution shall not be required to provide additional support or documentation for the effort actually performed.