

## SPONSORED PROGRAMS AND GRANTS MANAGEMENT

Policy and Procedures

Date: July 22, 2020

**Subject:** Cost Principles for Sponsored Projects

### I. Purpose:

This policy is to ensure direct costs are necessary, reasonable, allowable, and allocable to a particular sponsored project and administered consistently across all sponsored projects. By administering this policy, the university ensures that direct costs, associated facilities, and administrative (F&A, indirect, overhead) costs, are presented appropriately in proposal budgets and charged consistently to separate and distinct funds in the university's accounting system. This policy applies to all funding, federal and non-federal, accepted by the Office of Sponsored Programs and Grants Management (SPGM) on behalf of the university.

### II. Policy

The award date and contractual modifications of federal awards/subawards determine which regulations are applicable. For federal awards/subawards issued with a start date prior to December 26, 2014, 2 CFR Part 215 (OMB Circular A-110) and 2 CFR, Part 220 (OMB Circular A-21) apply. For all new funds (new awards and new monies, such as continuation awards, supplements, etc. received for existing awards) with a start date on or after December 26, 2014, these new funds are subject to 2 CFR Part 200 (commonly referred to as Uniform Guidance—Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards but hereinafter referred to as “2 CFR Part 200”). Both of these federal regulations incorporate the Cost Accounting Standards (CAS) located in 48 CFR 9905.501, 9905.502, 9905.505, 9905.506, and 48 CFR 9900 through 9999 and 48 CFR part 30 (FAR Part 30) which establish the principle that costs will be consistently treated as direct or F&A costs. The standards apply to all federal agreements (grants, contracts, and cooperative agreements), including federal funds received by the university from other organizations and state agencies (federal flow-through funds). Direct costs on sponsored projects are those costs that can be clearly associated with a specific project and can be assigned easily with a high degree of accuracy. Costs incurred for the same purpose in similar circumstances must be treated consistently as either direct cost or F&A cost. As prescribed in Subpart E – Cost Principles under “2 CFR Part 200” or OMB Circulars A-21, for a given cost to be charged to a sponsored award the cost

must be allowable, reasonable, and allocable and all of the criteria outlined in Sections 2.1, 2.2 and 2.3 must be met

**A. Allowable (2 CFR 200.403).** For a cost to be considered allowable it must:

- be necessary and reasonable for the performance of the federal award;
- not be designated as “unallowable” under federal regulations for selected items of cost;
- adhere to sponsor-specific policies and award-specific terms and conditions; •adhere to state and university policies, procedures and regulations regarding specific items of cost;
- be given consistent treatment, i.e., a cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an F&A cost;
- not be included as a cost or used to meet cost sharing or matching requirements on any other federally financed project in either the current or a prior period; and
- be adequately documented.

**B. Reasonable (2 CFR 200.404).** For a cost to be considered reasonable it must:

- generally recognized as ordinary and necessary for the performance of the federal award;
- reasonably priced based on sound business practices;
- compliant with state and university procurement policies and procedures;
- compliant with federal and state laws and regulations and terms and conditions of the federal award;
- comparably priced for the geographic area; and
- reasonable as determined by a prudent business person.

**C. Allocable (2 CFR 200.405).** For a cost to be considered allocable it must:

- be incurred solely to advance the work funded under the federal award; and
- benefit the sponsored project and other work of the university in proportions that can be clearly documented through reasonable methods.
  - If a cost benefits two or more projects or activities in proportions that can be determined and documented without undue effort or expense, the cost must be allocated to the projects based on the proportional benefit.
  - If a cost benefits two or more projects or activities in proportions that cannot be determined with normal precision because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefitted projects on any reasonably documented basis, such as the Principal Investigator’s documented estimate.
  - Supplies and equipment may not be purchased simply to use an unobligated balance remaining at the end of a project or used to restock inventory to replenish supplies used during the life of the project.

### **III. Procedures**

The total cost of a sponsored project is comprised of the allowable direct costs incident to its performance plus the associated F&A costs. Detailed directions on the treatment of specific costs is contained in various procedures on the SPGM website. Principal Investigators who believe that the scope and nature of their federally funded project warrant an exemption to this standard will be required to justify their request in writing for consideration by SPGM, and in some cases the sponsoring agency. During the Pre-Award proposal submission state, such requests should be clearly outlined and justified in the budget description or summary page when the proposal is submitted to the sponsor.

For a cost to meet the requirement of consistency, it must be treated in the same manner (i.e., as either direct cost or F&A cost) when used in like circumstances. This means for all categories of costs, all activities within the university must account for such cost in the same manner when incurred in similar circumstances.

As 2 CFR Part 200.412 states, “A cost may be direct with respect to some specific service or function, but F&A with respect to the federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct cost or a F&A cost in order **to avoid possible double-charging of federal awards.**”

### **IV. Definitions**

NONE.

### **V. References**

2 CFR Part 200, Subpart E, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

### **VI. Approvals**

Approved by the Director of Sponsored Programs and Grants Management on July 22, 2020.