

# University of South Alabama

## Policy on Cost Principles

### I. Purpose

The purpose of this policy is to identify the principles used to determine whether costs incurred at the University of South Alabama (University) are allowable or unallowable as either direct costs or as facilities and administrative costs (F&A). The policy applies to both costs charged to sponsored agreements and cost sharing.

OMB Circular A-21 Cost Principles for Educational Institutions (A-21) establishes principles for determining costs applicable to federally sponsored agreements. The principles deal with determining costs, identifying allowable and unallowable costs, and they define direct and F&A costs. This policy is based on the requirements of A-21.

Consistent treatment of costs is a basic cost accounting principle and is specifically required by A-21 to assure that the same types of costs are not charged to federally sponsored agreements both as a direct cost and as an F&A cost. This concept is further reinforced and emphasized in a Cost Accounting Standard referred to as "CAS 502" that educational institutions are also required to follow.

Consistency, in this context, means that costs incurred for the same purpose, in like circumstances, must be treated uniformly as either a direct cost or as an F&A cost. Therefore, costs defined as F&A costs cannot also be charged directly to a sponsored agreement, unless the circumstances related to the specific agreement are clearly different from the normal operations of the institution and have been authorized on an exception basis. (Example: Routine postage for mailing of correspondence and manuscripts is normally an F&A cost and is not charged directly to sponsored agreements. However, a project whose purpose is to collect data by mailing numerous surveys and questionnaires may have a unique need to incur postage as a direct cost.) The major objective of this policy is to ensure the Universities compliance with the consistency requirements of A-21 and CAS 502.

All University personnel who have management responsibility for sponsored agreements or for purchasing goods and services for a sponsored agreement should be knowledgeable of these cost principles and the Universities financial accounting system (FAS) object coding. Correct object coding is necessary to assure that unallowable expenses are eliminated, costs are treated consistently, and adequate data are available to prepare the F&A rate study. This policy outlines appropriate and inappropriate expenditures and classifications.

This policy applies to all sponsored agreements, federal and nonfederal. However, costs normally treated as F&A costs may be directly charged to a nonfederal agreement when permitted by the sponsor's policies or otherwise authorized by the nonfederal sponsor. In addition, if a nonfederal sponsor's policy on allowable and unallowable costs is inconsistent with this policy, the sponsor's policy takes precedence.

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### II. Definitions

- **Office of Management and Budget (OMB) Circular A-21:** OMB Circular on Cost Principles for Educational Institutions.
- **Agency Approval/Authorization:** Appropriate/allowable by written agency policies or through specific written approval from an appropriate agency official.
- **Allowable Costs:** An expense is allowable if it meets all of the following criteria. These criteria apply to all costs charged to sponsored agreements, either as direct costs paid by the sponsor, cost sharing, or F&A costs.
  - ❑ The cost is REASONABLE – A prudent person would have purchased this item and paid this price.
  - ❑ The cost is NECESSARY – The expense is required to fulfill the terms and needs of the sponsored agreement.
  - ❑ The cost is ALLOCABLE – The expense benefits the sponsored agreement or, when the expense benefits more than one activity, an appropriate share can be identified to individual agreements.
  - ❑ The cost is CONSISTENTLY TREATED – Expenses for the same purpose are treated and classified the same way under like circumstances.
  - ❑ The cost is NOT PROHIBITED – The expense is not specifically prohibited by OMB Circular A-21, the terms of the sponsored agreement or other regulations.
- **Direct Costs:** Costs which can be specifically identified with a particular project, program, activity or sponsored account.
- **Facilities and Administrative Costs (F&A):** Costs that cannot be readily and specifically identified with a specific project, program or activity but which provide an overall benefit to the University and sponsored agreements. F&A costs were previously called “Indirect Costs.”
- **Principal Investigator/Project Director (PI/PD):** The individual designated as having primary scientific/technical/financial management responsibility for a sponsored agreement.
- **Sponsored Agreement:** A grant, contract, cooperative agreement, subcontract or purchase order from an extramural funding source for a specific program, project or task.
- **Unallowable Costs:** Costs that cannot be charged to sponsored projects as direct costs and cannot be included as costs to be recovered through the F&A cost rate. These costs may be permissible uses of University funds.

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### III. Direct Costs

The following costs should normally be directly charged to sponsored accounts. However, the terms of the specific agreement and the sponsoring agency's regulations must be reviewed prior to determining the appropriateness of costs for an individual project. An individual sponsor may prohibit certain expenses. The following listing is only intended to be a quick reference. It should also be noted that direct costs must also meet the criteria listed above in the Definition section (i.e., be specifically identified with the sponsored agreement and be allowable).

- **Animals** – Purchase and animal care use fee or per diem. The agreement must specify that animals will be used on the project. Animal-related costs may not be incurred prior to Institutional Animal Use Committee (IAUC) approval of the animal subjects protocol. Use fees or per diems must be established through a service center mechanism with consistently applied rates charged to all users.
- **Compensation** – Salaries and wages for faculty/scientific/technical/professional individuals working specifically on the sponsored agreement.
- **Conference Costs** – (i.e., conducting a conference, not attendance at a conference.) Must be specifically authorized as part of the agreement. (Attendance at a conference is also normally a direct cost, usually treated as a travel cost, if related to the scientific/technical needs of the sponsored agreement.)
- **Consortium Costs/Subcontracting** – Usually requires agency authorization.
- **Equipment** – Defined as an item with a unit cost of \$5,000 or more and a useful life of more than one year. Special purpose scientific/technical equipment is normally a direct cost. General purpose equipment such as computers, printers, FAX machines, furniture, typewriters, filing cabinets, etc. are not normally appropriate as direct costs, except when specifically related to the scientific/technical needs of the agreement. All equipment purchases must be preapproved by Office of Grant and Contract Accounting (OGCA) and may require agency approval. Most agencies have limitations on levels of purchases allowed without specific agency authorization. Rental or lease of equipment is normally an F&A cost but may be a direct cost based on specific needs of the agreement. All vehicle purchases require specific agency authorization. All direct charges for equipment should be specified in the proposal budget. If the awarding agency approves the item in the budget, this usually constitutes agency authorization to charge the cost of the equipment to the agreement.
- **Equipment Fabrication Costs** – Appropriate as a direct cost if the equipment is scientific/technical equipment. Fabrication of general purpose equipment is normally an F&A cost.
- **Equipment Maintenance and Repair Costs** – Includes maintenance service agreements. Appropriate as a direct cost if the cost is for equipment directly charged to a sponsored agreement.

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- **Fringe Benefits** – Standard benefits associated with compensation as established by the Universities Human Resources Office. Fringe costs are specifically identified to each employee and are charged individually as direct costs.
- **Housing and Living Expenses** – May be incurred only on some conference/training/fellowship agreements where such costs are specifically authorized.
- **Human Subjects Payments/Incentives** – The agreement must specify human subjects activity and payments. Costs may not be incurred prior to IRB human subjects protocol approval.
- **Patient Advertising and Recruitment** – The agreement must specify human subjects activity. Costs may not be incurred prior to IRB approval of the human subjects protocol.
- **Patient Care (Inpatient/Outpatient)** – The agreement must specify patient activity and the costs must be authorized by the agency.
- **Preagreement Costs** – Under Federal Demonstration Project (FDP) and Expanded Authority agreements, costs may be incurred up to 90 days prior to the start date. All other agreements require specific, written agency authorization.
- **Printing and Photocopying**
- **Professional and Consulting Fees** – Specific restrictions may apply to hourly and daily rates and internal (i.e., University employee) consultations. An individual may not be an employee and a consultant on the same sponsored agreement.
- **Registration** – Conference registrations, when directly related to the needs of the agreement. Direct charges may only be made for individuals working on the agreement.
- **Rental/Lease Space Costs** – Usually only for off-campus projects, if specifically authorized in the award. Incidental space rental for meetings or conferences may be appropriate as a direct cost for an on-campus project. All other space costs are included in F&A.
- **Scholarships, Stipends, Tuition, and Other Student Aid Costs** – Appropriate only on training/fellowship/financial-aid agreements where such costs are specifically authorized. May not be charged to research agreements. Additional University and IRS requirements may apply.
- **Scientific/Technical Service Fees** – Charges for internal service activities should be established through a service center mechanism with consistently applied rates to all users.
- **Speaker Fees** – Payment for services rendered.
- **Supplies** – (1) Medical/scientific/technical/laboratory materials such as chemicals, glassware, gases and liquids, scientific software, pharmaceuticals, etc. are direct costs. (2) Educational supplies may only be directly charged to educational/training programs, as outlined and authorized in the agreement. (3) Unless specifically authorized, office supplies are not appropriate as a direct cost.

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- **Telephone** – Long distance charges are treated as direct costs. Local telephone service and equipment are normally F&A costs.
- **Transportation Costs** – Freight, express, cartage, postage and other transportation services relating to goods purchased. Costs would normally be included as part of the purchase price of the goods/equipment and would not normally be charged separately.
- **Travel Costs** – Travel must be by coach class and by U.S. Flag Carrier, unless an exception has been authorized.
- **Vehicle Use Costs** – Vehicle rental and mileage reimbursement should be directly charged to sponsored agreement travel, in accordance with agency guidelines and the University Travel Policy. No other type of vehicle costs/purchase/maintenance may be charged to a sponsored agreement without specific agency authorization.

#### IV. Facilities and Administrative (F&A) Costs

The following are normally treated as F&A costs and are not directly charged to sponsored agreements nor used as cost sharing. These costs are charged to University funds and recovered from sponsored projects through the applications of the F&A rate.

- **Accounting/Audit costs**
- **Administrative/Managerial/Clerical Salaries/Wages/Benefits** – Includes both staff and student employees providing administrative/clerical services.
- **Alterations and Renovations** – Only appropriate as a direct cost when required to perform the sponsored agreement and authorized by the sponsoring agency. Many agencies have dollar threshold requirements.
- **Banking Fees or Charges** – International bank wire transfer fees are considered normal direct costs and do not required specific approval. All other banking costs are F&A.
- **Computer Services or Use Fees** – Routine, standard computer services, hookups and networking costs, including MIS/ITD/Networking/Database Management Personnel costs are normally F&A costs. Specialized computer search or data base services may be appropriate as a direct cost, if the service is directly related to the agreement's needs and the charges are based on established rates charged to all users.
- **Construction Costs/Architectural Fees** – Appropriate as a direct cost only on agreements for construction, where such costs have been specifically authorized by the sponsoring agency.
- **Facilities Management – Building Maintenance and Work Orders** – Repairs, painting, utility charges.
- **General Purpose Equipment** – Computers, FAX machines, typewriters, office furniture, file cabinets, etc.
- **Insurance** – Health/Dental/Life insurance for faculty and staff is included as a direct cost as a fringe benefit. Some training/fellowship programs authorize health/dental reimbursement, as a direct cost, for specified trainees. These costs are not included as fringe benefits.

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- **Legal Costs**
- **Library Costs/Collections/Acquisitions** – Appropriate as a direct cost only when they are part of the basic purpose of the agreement (e.g., library resource grants) and have been authorized by the funding agency.
- **Membership Dues** – Includes scientific societies and other organizations
- **Office Supplies** – Paper, pencils, pens, binders, folders and similar supplies.
- **Postage** – Postage/Fed Ex/Courier, etc., includes all costs incurred for correspondence, reports, and manuscripts.
- **Recruitment and Relocation Expense** – For faculty/staff. Rarely appropriate as a direct cost. Occasionally approved for individuals hired specifically for the needs of the agreement, in accordance with agency-specific guidelines. Usually must be authorized by the agency. The individual's effort must be dedicated solely to the agreement charged. Direct charging would not be appropriate for individuals with multiple duties.
- **Sabbatical Leave** – Rarely appropriate as a direct cost. Occasionally, a portion of an individual's sabbatical salary, directly related to work on the agreement, may be authorized by the agency.
- **Subscriptions/Books/Periodicals** – Normally not allowable as a direct cost as these are included in the F&A library services pool. Some special development programs or training agreements may include specific authorizations for such costs.
- **Telephone** – Includes equipment use charges or purchases, local telephone service charges, FAX lines, FAX machines and pagers or cellular telephone purchases, fees or services.

### V. Examples of Exceptional Circumstances (Major Projects)

The following outlines possible circumstances under which normal F&A costs may be charged as direct costs to a federally sponsored project. These costs should be explained and justified in the proposal budget when the sponsor requires a detailed budget. These examples are not exhaustive nor are they intended to imply that direct charging would always be appropriate for the situations illustrated.

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### **Administrative/Managerial/Clerical Salaries/Wages/Benefits**

These costs may only be authorized for projects where the nature of the work performed requires an extensive amount of administrative or clerical support. Such costs might be appropriate for:

- Large complex programs such as Clinical Research Centers, Primate Centers, program projects, Environmental Research Centers or Engineering Research Centers and other agreements that entail assembling and managing teams of investigators from a number of departments or institutions.
- Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature and reporting, such as epidemiological studies, large scale clinical trials and retrospective clinical records studies.
- Projects requiring 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 or scientific manuscripts).
- Projects that are geographically inaccessible to normal departmental administrative services, such as seagoing 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 protocols, IRB preparations and/or other project-specific regulatory protocols and multiple project-related investigator coordination and communications.

### **General Purpose Equipment**

Computers and printers, and other selected items may be appropriate as a direct cost when the PI/PD certifies that the equipment is necessary for the unique scientific/technical tasks of the specific agreement. (Examples: A computer, which will be used primarily to store and access a large scientific database, may be appropriate as a direct cost. A computer used for processing reports, manuscripts, correspondence and publications would not be appropriate. A photocopier normally services many diverse functions and projects and would not be appropriate as a direct cost).

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### **Membership Dues**

Appropriate as a direct cost on an exception basis only where: (1) Membership is a mandatory requirement of the specific agreement; or (2) For training/fellowship programs where the membership is authorized for a trainee as part of the trainee's development/training program; or (3) Where the membership is required/included as part of the registration costs for a conference and participation in the conference is directly related to the specific needs of the agreement.

### **Office Supplies**

Extraordinary costs for office supplies used specifically for the technical/scientific needs of the agreement may be appropriate as a direct cost. (Examples: Paper, envelopes or computer paper, used as part of a survey mailed to participants for an epidemiological study may be appropriate. Paper, envelopes or computer paper used as part of the administration of the project or for routine correspondence and publications would not be appropriate.)

### **Postage**

Extraordinary costs for postage, Federal Express or courier directly related to the scientific/technical needs of the agreement may be appropriate. (Examples: Costs of shipping project samples to a laboratory or a collaborator, for analysis, may be appropriate, as would costs for mailing large epidemiological surveys. Shipping costs for returning a piece of equipment may be appropriate, if the item was originally purchased on the agreement. Costs for routine correspondence or mailing proposals, manuscripts or reports would not be appropriate.)

### **Subscriptions/Books/Periodicals**

Costs may be appropriate as a direct cost when the PI/PD certifies that the publication is a necessary requirement for the scientific/technical completion of the specific agreement and that it does not benefit other agreements or activities. (This situation would be extremely rare). An exception may also be appropriate for training agreements where the publication purchase is for a trainee and the publication is an integral part of the trainee's planned program. Publications that provide a general benefit to research and teaching activities would not be a direct cost.

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The cost of telephone lines may be appropriate for a project requiring extensive telephone surveying where the function of specified staff is to telephone respondents. Costs would only be permitted for the dedicated lines not for all telephone services supporting the project. Telephone costs would not be appropriate where the purpose is to provide general telephone accessibility to staff or a space/lab.

Pagers or cellular telephone costs may be appropriate for an individual whose primary task is to travel from location to location to gather data or conduct patient surveys and that individual must maintain contact on a continual basis, as part of the specific needs of the agreement. Costs would only be allowable based on the pager/cellular telephone use being dedicated solely to the needs of the project. In the case of an individual who has multiple duties or works on several agreements or where the pager/cellular telephone is not an integral part of the specific tasks associated with the agreement, costs of a pager/cellular telephone would not be appropriate as a direct cost. If the pager/cellular is needed primarily because the person needs to be reachable by staff, such costs may not be directly charged to a sponsored agreement.

### VI. Approval of Exceptions

Exceptions can be requested in three ways: through a budget to the agency; through an internal budget to the Office of Sponsored Programs (OSP) (when an agency budget is not required e.g., NIH modular grants); or through a rebudgeting request to the Office of Grant and Contract Accounting (OGCA). If a PI/PD believes that any of the costs listed in Section IV are appropriate as direct costs, they should be included in the proposal budget and be fully justified on the basis of the unique and mitigating scientific/technical needs of the project. If the budget is submitted to the agency and the agency does not specifically line-out or disallow the proposed costs, then they will be considered appropriate direct costs as long as the project meets the exceptional criteria outlined above. However, the PI/PD should still review the costs on an on-going basis for appropriateness and consistency. Costs that are normally F&A costs that have been included in the proposal budget and not specifically deleted by the sponsor will still not be allowed if the project fails to meet the exceptional criteria. If the agency does not require detailed budgets, the justifications for the costs should be submitted with the internal budget submitted to OSP who will determine the existence of an exceptional circumstance.

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If the PI/PD determines that there is a need for these types of costs but they were not included and justified in the original budget submitted to the sponsor or to OSP, the PI/PD may request an exception to incur the costs. The PI/PD should submit a letter (with appropriate signatures) justifying the costs based on the scientific needs of the project, in conformance with this policy. The request should be reviewed and approved by the Departmental Chair and must be approved by the designated School Representative.

OGCA will review the request based on the requirements and interpretations of A-21, CAS 502, and agency guidelines. If the University has institutional rebudgeting authority, the request may be approved by OGCA. If the University does not have institutional rebudgeting authority for the cost requested, agency approval will be required. The costs should be included and justified in the next renewal proposal (i.e., the next proposal for which a budget is submitted to the agency) for agencies requiring detailed budgets.

This process should only be used for federally sponsored agreements. For nonfederal agreements, the cost will normally be allowable under the sponsor's guidelines or will require specific sponsor authorization.

All exception requests should be reviewed and approved by the School or College and OGCA (and the agency, where required), prior to the cost being incurred. When that is not practical, except in the case of equipment, the PI/PD may incur the cost pending approval. For equipment, the authorization request should be included as part of the requisition process and the item must be approved prior to making a purchase.

While there is no specific dollar value required for exception requests, exceptions should only be requested for extraordinary costs and circumstances, so that most small dollar value requests would probably not meet the strong, mitigating need criteria for an exception. Also, neither the lack of other non-sponsored supportive funding nor the availability of funding under a sponsored agreement is justification, in and of itself, for requesting an exception. All exceptions must be based on a specific, extraordinary scientific/technical need and must be essential to successfully completing the requirements of the agreement.

For the designated cost categories, costs will be disallowed by OGCA if an approved exception is not on file with OGCA within 30 days of the end of the annual budget period of the agreement. If an already incurred cost is not authorized or is subsequently disallowed, the cost must be transferred to a University non-sponsored account and may not be transferred to another sponsored agreement (federal or nonfederal).

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The Department Chair, the School or College Representative or OGCA may deny an exception request if they conclude that the cost does not meet the criteria in this policy or the federal regulations. OGCA has the final institutional authority for determining appropriate costs. OGCA will not approve any request without the prior approval of the School or College and may require that specific agency authorization be requested for any exception to the standard cost principles outlined in this policy.

### VII. Unallowable Costs

The following types of costs may not be charged to a federally sponsored agreement either directly or as F&A costs. This is a quick reference. Please be aware that there are some exceptions to some of the categories listed.

- **Advertising, Public Relations and Promotional Costs** – Institutional promotion of the University is unallowable. Some types of advertising, such as recruitment of study patients, may be allowable.
- **Alcoholic beverages**
- **Alumni activities**
- **Bad debts**
- **Charitable contributions, donations or gifts (cash, services or property)**
- **Commencement and convocation expenses**
- **Contingency provisions**
- **Entertainment costs**
- **Fines and penalties**
- **Food Costs** – For seminars or patient incentives, may be appropriate as a direct cost, when related to the specific needs of the agreement. Usually authorized as part of the agreement. Food costs for routine operations or staff meals is not allowable, except in the course of travel or as part of a bona fide meeting related to the specific terms of the agreement.
- **Fund raising and investment management costs**
- **First class or other non-coach class travel**
- **Honoraria (i.e., a payment without service)** – Speaker's fees, or other payments involving a service, are allowable.
- **Housing and personal living expenses of University officers**
- **Lobbying**
- **Losses (overruns) on sponsored agreements**
- **Marketing and selling of goods**
- **Personal use of goods or services**
- **Preagreement costs** – Permitted under FDP/Expanded Authority Agreements up to 90 days or with agency approval.
- **Student activity costs**

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Costs that are directly associated with unallowable costs are also unallowable. Directly associated costs are costs that are generated solely as a result of the incurrence of another cost. For example, if a trip is made to conduct fund raising, the travel expenses for the trip are directly associated with the unallowable fund raising expenses and are also unallowable.