

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

COST POLICY

<u>Number</u>	07.06.01
<u>Division</u>	Contracts & Grants
<u>Date</u>	October 1, 1998 (Updated February 23, 2016)
<u>Purpose</u>	The purpose of this policy is to establish general policies and procedures for determining cost applicable to contracts, grants and other agreements. The University intends for this information to be used as a guide and not a substitute for agency interpretations or specific award requirements.
<u>Policy</u>	1.0 INTRODUCTION

The operation of any enterprise involves costs that pertain to a specific project, as well as general costs. For administrative and accounting purposes these costs are grouped into two categories – direct and indirect. Many costs, however, are not discretely direct or indirect and may appear in either category, depending on the circumstances. Such is the case with costs of federally sponsored awards at colleges and universities. The basic regulations for ascertaining the costs of federally sponsored awards at educational institutions are set forth in Office of Management and Budget (OMB Circular A-21 relocated to 2 CFR 200): Cost Principles for Educational Institutions. The regulation establishes principles for determining costs applicable to sponsored agreements, contracts, and other agreements with educational institutions.

Effective May 8, 1996, Circular A-21 was revised to incorporate four Cost Accounting Standards applicable to educational institutions. These were issued by the Cost Accounting Standards Board (CASB) on November 8, 1994, and the A-21 revision extended the standards to all sponsored agreements. Also, the revision required certain large institutions to disclose their cost accounting practices by the submission of a disclosure statement

1. CAS 501 - Consistency in Estimating, Accumulating, and Reporting Costs
2. CAS 502 - Consistency in Allocating Costs for the Same Purpose
3. CAS 505 - Accounting for Unallowable Costs
4. CAS 506 - Cost Accounting Period

B. Effective Date and Applicability of Guidelines

Implementation of The University of Alabama in Huntsville (UAH) guidelines is October 1, 1998. These costing guidelines will apply to all new proposals submitted on or after September 1, 1998. For awards received after October 1, 1998 for which proposals were submitted prior to September 1, every effort will be made to establish the budget in compliance with these guidelines. These guidelines apply to all sponsored projects.

C. Responsibility for Compliance

Responsibility for following these guidelines lies primarily with Principal Investigators (PIs) of sponsored projects, department heads, and college/unit fiscal officers by providing guidance and oversight of research units. The University administration is responsible for guidance, training, and ensuring compliance through periodic internal and external audits. Administrators might assist in judging accuracy after the fact, but only the PI or the PI's technical staff can truly judge the appropriateness of a charge to the project.

1.2 FACTORS AFFECTING ALLOWABILITY OF COST

The following criteria must be considered in determining the allowability of a cost:

1. Costs must be reasonable to sponsored agreements under the principles and methods of 2 CFR 200.404. A cost is considered reasonable if the nature of the goods or services acquired and the amount involved reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision was made to incur the cost.
2. Costs must be allocable to sponsored agreements under the principles and methods of 2 CFR 200.405. A cost is allocable to a particular sponsored project if the goods or services involved are chargeable or assignable to a project in accordance with the relative benefits received.
3. CAS and the revised 2 CFR 200.413 emphasized the importance of consistent application of cost accounting principles. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. Where the University treats a particular type of cost

incurred for the same purpose in like circumstances must be consistently treated by the University as either direct or indirect.

3.1 CHARGING NORMALLY INDIRECT COSTS TO SPONSORED PROJECTS

Federal Uniform Guidance (UG) does not absolutely prohibit costs identified by the institution as indirect from being charged directly to a sponsored agreement. However, strict criteria must be met.

Costs normally treated by the University as indirect may be charged to a sponsored project when ALL of the following conditions are met:

1. The

are integral to meet the exceptional requirements of the project as compared to that of administrative and clerical staff who perform work related to routine departmental or general institutional administration.

3.2 SPECIAL PURPOSES OR CIRCUMSTANCES WHERE DIRECT CHARGING OF COSTS NORMALLY TREATED AS INDIRECT COSTS MAY BE APPROPRIATE

Charging costs normally treated as indirect as a direct charge to a sponsored project may be approved for projects that involve the following special purpose or circumstance:

1. Industrial/Commercial (excluding Federal pass through awards). Projects sponsored by these organizations are proposed and awarded to be performed at least in part for the benefit of the industrial/commercial sponsor as well as the University. Total costs of the project are the concern of the sponsor and the sponsoring company may not require a detailed budget. Costs are assigned to projects as deemed appropriate by the University. However, if a detailed budget is required, the guidelines under Section 3.1 of this policy must be followed in direct charging a normally indirect cost to the sponsored award.
2. Foundations and Not -For-Profit Agencies and Associations. Typically the guidelines of these organizations specify the types of costs they wish to be charged directly to a project. If the sponsor is charged the full indirect rate, there may not be a special purpose or circumstance.
3. State Sponsored Agreements. The University must comply with State agency regulations and statutory requirements. Consequently, costs must be assigned based on the sponsor's agreement and the awarded budget.
4. Training Grants. Since training grants are for a different purpose (training) as opposed to a traditional research project, these project budgets often include costs that are normally considered to be indirect costs. Training grants usually identify a line item for "institutional allowance" which authorizes direct charging of costs normally treated as indirect if they are reasonable, specifically identified with the project, and allowed by the sponsor's guidelines.
5. Planning Grants. Research planning grants may be used for preliminary work to determine the feasibility of a proposed line of inquiry, and/or for other activities that will facilitate proposal development. Since planning grants are for a different purpose (planning) as opposed to a traditional research project, these project budgets often include costs that are normally treated as indirect.
6. Projects that are geographically inaccessible to normal departmental

as indirect) cannot normally be charged to such groups of sponsored agreements unless the costs clearly meet the criteria for a special purpose and circumstance specified in section 3 of this policy.

4.1 PROPORTIONAL BENEFIT RULE FOR NON-COMPENSATION COSTS

The proportional benefit rule is used when:

1. The cost in question qualifies as a direct cost as described in sections 2 and 3 of these guidelines;
2. The cost benefits two or more projects or activities; and
3. Without undue effort or administrative expense, a distribution can be devised which roughly but reasonably reflects the proportional distribution of the benefit that the cost has paid for. The PI(s) must be a part of the approval process when using this method.

Examples of Acceptable Methods:

1. The PI's best judgment of the proportions that will reflect the benefit of the costs to each of the sponsored agreements;
2. Log documenting actual usage;
3. Other methods may be acceptable but should be discussed and approved by the Research Administration Office.

Please see section 2.3 for unacceptable direct costing practices.

4.2 PROPORTIONAL BENEFIT RULE FOR COMPENSATION COSTS

(e.g. Salaries, wages and fringe benefits)

The payroll distribution system will allow confirmation of activity allocable to each sponsored agreement and each of the categories of activity needed to identify F&A {indirect} cost categories and the functions to which they are allocable

The proportional benefit rule is applied when the Principal Investigator authorizes the distribution of allowable salary and related fringe benefits across two or more sponsored agreements. This authorization should reflect the PI's best judgment of the proportional benefit of the salary and fringe benefit costs to each of the affected sponsored agreements, based on first-hand knowledge of the individual's efforts on the project(s).

The Time Certification Form is an after-the-fact confirmation that the faculty/staff salary charged to both direct and indirect costs are reasonable in relation to the activity performed. This form is initiated by the UAH Payroll Office.

For student and hourly on-call employees the monthly time documents (time and attendance card) account for 100% of the activity for which the employee is compensated.

Under these guidelines, when allowable salaries and related fringe benefit costs are allocated across two or more projects, the individual who signs the Time Certification Form and Time and Attendance Card is certifying that the percentages/hours are a reasonable proportional distribution of the employee's actual effort.

4.3 INTERRELATEDNESS RULE

This rule applies when a cost is clearly a direct cost for a group of projects,

group on “any reasonable basis” (2 CFR 200.405).

For grants that meet the criteria above, a cost that benefits a set of interrelated projects may be charged to any or all of them in any proportion that, in the judgment of the PI, constitutes a “reasonable basis.” The written prior approval of the Grants Officer should be obtained for any questioned interrelated cost distribution. These distributions will be reviewed and approved by Research Administration.

5.0 UNALLOWABLE COSTS

between accounts involving closely related work, or redistributing charges in those few cases where the university's billing systems will not allow for charging the appropriate amount to the proper accounts upon original posting.

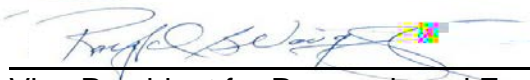
In all cases, cost transfers must be made promptly. In this context, "promptly" means that the cost transfer should be made no later than 90 days of the original transaction. Requests for cost transfers to be processed between 91 and 120 days must be signed specifically by the principal investigator and must also be approved by the applicable department chair. If under some rare circumstances, it should be necessary to make a cost transfer beyond 120 days, then the applicable dean's signature will be required in addition to the signatures of the principal investigator and department chair. Requests for late cost transfers should include an explanation of the extenuating circumstances which prevented the transaction from being made earlier.

Review The Office of Contracts and Grants is responsible for the review of this policy every five years (or whenever circumstances require).


Approval



Chief University Counsel



Vice President for Research and Economic Development

APPROVED:


President

A. LISTING OF ACCEPTABLE DIRECT COSTS (Refer to Exhibit 1)

Examples of acceptable direct costs that meet Federal Uniform Guidance (UG) requirements and are “identifiable to a particular cost objective” (F6b) are listed and explained below:

1. SALARIES AND WAGES AND FRINGE BENEFITES (

c) search service charges.

B. COSTS, NORMALLY TREATED AS INDIRECT COSTS, THAT MAY BE DIRECTLY CHARGED TO SPONSORED AGREEMENTS (Refer to Exhibit 1)

Federal Uniform Guidance (UG) does not absolutely prohibit such costs from being charged directly to a sponsored agreement, if they meet the criteria described in section 3.1.

Items of costs such as salaries of administrative and clerical staff, office supplies, postage and local telephone (including monthly service charges) are normally treated as indirect costs. However, for special purposes and circumstances (Refer to 3.2 in these guidelines), costs that are normally indirect may be directly charged. The examples shown in the EXHIBIT 1 table are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries and other categories of costs, normally treated as indirect, would always be appropriate for every “special purpose” situation.

Examples or practices that would establish a link between the cost and the sponsored agreement activity are shown below. These examples are not meant to cover all situations.

1. **GENERAL PURPOSE SOFTWARE AND COMPUTER SUPPLIES.** General purpose computer supplies, including computer diskettes, printer paper for research data and reports, and toner cartridges, may not normally be direct charged. Also included is general purpose office software, such as word processing and spreadsheet programs. These costs cannot be directly charged to a sponsored agreement unless their applicability to the special circumstance or purpose of the sponsored agreement can be clearly established. These items must be justified in the budget and not specifically disallowed. When such items are purchased to support multiple activities of project personnel, they may not be directly charged. If it can be documented that these types of supplies are used only for project purposes, then the cost(s) may be direct charged.

2. **COMPUTING HARDWARE.** Computing hardware is normally an indirect cost because computers are used in support of a variety of activities. However, computers may be charged to a sponsored agreement when the following are met:

4. LOCAL TELEPHONE CHARGES. It may be appropriate to charge basic telephone charges if a dedicated telephone line is necessary solely for the performance of a sponsored project and will be removed at the conclusion of the project.

5. MEMBERSHIPS AND SUBSCRIPTIONS. Institutional memberships in professional or scholarship societies and subscriptions to scholarship publications should not be directly charged to sponsored agreements unless their applicability to the special circumstance or purpose of the sponsored agreement can be clearly established. The link between the cost of the subscription and the project activity must be "close and clear." If the required conference registration fee for a professional society/organization meeting also includes an annual membership in the professional organization, then the total amount paid for travel would include this membership fee. Travel costs related to a sponsored agreement and approved by the sponsoring agency in the budget for the sponsored agreement would be allowable as a direct cost.

6. POSTAGE. These costs are allowable as direct costs when they directly support the special purpose or circumstance of the sponsored agreement. A postage meter or log should be used to document such support. Shipping costs not classified as ordinary postage are acceptable direct costs.

7. REPRODUCTION AND BINDING. Copying expenses and any publication costs connected with dissemination and evaluation of information of the sponsored project are only allowable as direct cost when there is a special purpose or circumstance.