

## **FIN 20:02**

### **COST PRINCIPLES FOR SPONSORED PROJECTS**

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#### **I. PURPOSE**

The purpose of 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 and 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 nonfederal, accepted by the Office of Research, Grants, and Sponsored Programs (ORGSP) on behalf of the university.

#### **II. POLICY STATEMENT**

Federal awards/sub-awards issued on or after December 26, 2014 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”). This federal regulation incorporates 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,” 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 1, 2, & 3 below must be met.

##### **1. Allowable**

For a cost to be allowable (2 CFR 200.403), 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

## 2. Reasonable

For a cost to be reasonable (2 CFR 200.404), it must be:

- 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.

## 3. Allocable

For a cost to be allocable (2 CFR 200.405), 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. DEFINITIONS

- **Administrative and Clerical Salaries and Wages:** Costs normally included in departmental administration expenses and typically refer to employees in secretarial positions and office services; however, the nature of the task being performed and not the class title determines if the work is classified as administrative or clerical.
- **Cost Sharing:** Refers to the portion of the total costs of a sponsored project borne by LMU.
- **Direct Costs:** Costs that can be identified and associated with a particular sponsored project, instructional activity, or any other institutional activity, or can be directly assigned to such activities relatively easily and with a high degree of accuracy. Examples of direct costs include salary, travel, equipment, supplies, etc.
- **Facilities and Administrative (F&A) Costs:** Generally, support costs that cannot be identified readily and specifically with a particular sponsored project. As an example, departmental clerical salaries, utility costs, etc. F&A costs are known sometimes as "indirect costs" or "overhead costs." Examples include costs for building and equipment depreciation and use, physical plant operation and maintenance, general administration and

general expenses, departmental administration, sponsored projects administration, library expenses and student administration and services.

#### IV. AUDIENCE

This policy applies to any employee who develops, submits, reviews, approves, or otherwise assists in the creation and receipt of grant applications and funds.

#### V. COMPLIANCE

Failure to comply with this policy and related Federal or State laws, regulations, or University policies may result in consequences, including but not limited to, loss of current and future awards

#### V. ROLES AND RESPONSIBILITIES

Office of Research, Grants, and Sponsored Programs: ORGSP is responsible for providing the supportive infrastructure needed to ensure correct financial management of federal and federal flow through grant funds.

Finance Office: ensures payments on federal grant awards are prompt with minimal time elapsing between transfer of funds (from United States Treasury or pass-through entity) and the distribution of the funds.

Primary Investigator and/or Co-Investigator: Makes award expenditures in accordance with both the grantor's and University's policies and procedures.

#### VII. PROCEDURES

When categorizing the various types of costs as either direct costs or F&A costs, the university shall be consistent to ensure costs incurred for the same purpose in like circumstances are consistently treated as either direct costs or as F&A costs. In other words, when the purpose is the same and circumstances alike, the university may not deem an expense a direct cost under one project and an F&A cost under another project (see Federal Cost Accounting Standards).

It is the university's policy to charge the maximum F&A cost rate allowable on all sponsored projects, regardless of the source. For federal funding agencies, the university applies the current rates established through its most recent F&A Rate Agreement, as negotiated with the federal government, unless otherwise dictated by the federal funding agency. For private, nonprofit funding sources, the university documents and abides by each sponsor's individual F&A rate policy, where F&A reimbursement may range from zero percent on up.

##### **1. Administrative/Clerical Salary Support Integral to a Project**

The salaries of administrative and clerical staff should normally be treated as F&A costs. Direct charging of these costs may be appropriate **only if all of the following conditions are met:**

- A. Administrative or clerical services are integral (essential, vital, or fundamental) to a project or activity;
- i. The definition of the term “integral” in this context means the nature and purpose of the sponsored project lends itself to administrative and clerical personnel being essential to the completion and fulfillment of the stated aims and objectives. This type of involvement of administrative and clerical personnel in direct support of the project deliverables is different, separate and apart from standard or routine levels of administrative support that are expected in the successful management of any sponsored award.
  - ii. The duties/roles below are examples of normal administrative support not considered integral to a project or activity:
    - Assisting with proposal processing
    - Monitoring projects for fiscal and administrative compliance
    - Assisting with general correspondence internally and with collaborators
    - Assisting with technical/project reports
    - Ordering supplies/equipment
    - Managing human resource responsibilities
    - Making meeting/travel arrangements for research faculty and students
- B. Individuals involved can be specifically identified with the project or activity;
- C. Such costs are explicitly included in the budget or have the prior written approval of the federal awarding agency.
- i. Some federal projects do not require a detailed budget as part of the proposal process, such as modular grants awarded by the National Institutes of Health (NIH). In such cases, these costs could be documented in a budget justification, statement of work, or other submitted proposal document.
  - ii. In order to obtain written approval for costs not specifically included in the budget, documentation of the unlike circumstances and integral nature of certain costs associated with a specific project must be submitted to the sponsor for review and approval.
- D. The costs are not also recovered as F&A costs. It would be inappropriate to charge the cost of such activity directly to the award if the costs of performing the same type of activity are also included as allocable costs in the university’s administrative cost pools.

## **2. General Administrative Expenses Integral to a Project**

Items such as office supplies, postage, local telephone costs and memberships must normally be treated as F&A costs. If directly related to a specific award, certain costs that otherwise would be treated as F&A costs may be allowed as direct costs, providing the cost satisfies the same conditions applicable to administrative and clerical staff exceptions as stated in section 4.1.

While this policy applies to all sponsored agreements, federal and non-federal, the costs identified as “normally F&A” may be directly charged to a non-federal project if the cost can be specifically identified with the particular sponsored project or directly assigned with a high degree of accuracy and permitted by the sponsor's policy or otherwise approved by the sponsor.

### **3. Unallowable Charges**

The Uniform Guidance deems certain costs simply unallowable and will not allow such costs to be budgeted as direct costs or F&A costs. Examples of disallowed costs include expenses for alcoholic beverages, entertainment, fund-raising and lobbying activities.

#### **VI. APPLICABLE STATUTES, REGULATIONS, AND RELATED POLICIES**

2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards: <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200>

2 CFR Part 200 Subpart E Cost Principles: <https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-E>

48 CFR Part 99 Subchapter B Part 9905 Cost Accounting Standards for Educational Institutions: <https://www.ecfr.gov/current/title-48/chapter-99/subchapter-B/part-9905>

#### **VI. CONTACT INFORMATION**

For more information regarding this policy please contact the Office of Research, Grants, and Sponsored Programs.

#### **VII. DOCUMENT HISTORY**

Effective: 08/16/2023