Costing Principles for Sponsored Projects

No. 3240

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Policy Owner:
Simon Allen, Vice President for Finance and Chief Financial Officer

Policy Author: *(Contact Person)*
Stacy King
Callan Bartel

Affected Parties:
Faculty
Staff

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1.0 Purpose

The university maintains this policy 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 (OSP) on behalf of the university.

2.0 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.

2.1 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 in either the current or a prior period; and
- be adequately documented.

2.2 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.

2.3 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.

3.0 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 Office of Sponsored Programs (OSP) website.

Principal Investigators who believe that the scope and nature of their federally funded project warrant a Cost Accounting Standards (CAS) Exemption that would allow direct charging of costs that are normally treated as F&A costs must complete and submit the Form B – Cost Accounting Exception Request with all required documents to the Office of Sponsored Programs (OSP) for review. OSP will determine if the CAS Exception request will be submitted to the sponsor for further consideration.

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**."

3.1 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**:

1. administrative or clerical services are ***integral*** (essential, vital, or fundamental) to a project or activity;
    a. 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.
    b. 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
2. individuals involved can be specifically identified with the project or activity;
3. **such costs are explicitly included in the budget or have the prior written approval of the federal awarding agency; and**
    a. 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.

b. 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.

4. **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.

3.2 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 3.1.

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.

4.0 Definitions

FACILITIES AND ADMINISTRATIVE COSTS generally support costs that cannot be identified readily and specifically with a particular sponsored project; for example, departmental clerical salaries, utility costs, custodial expenses, etc. **F&A costs are known by many different names, such as "indirect costs," "overhead costs" or simply "administrative costs."**

COST SHARING refers to the portion of the total costs of a sponsored project borne by the university.

ADMINISTRATIVE AND CLERICAL SALARIES AND WAGES are costs normally included in departmental administration expenses and typically refer to employees in secretarial positions, office services, and fiscal classifications; however, the nature of the task being performed and not the class title determines if the work is classified as administrative or clerical**.**

5.0 References

2 CFR Part 215 Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations (OMB Circular A-110)
https://www.gpo.gov/fdsys/pkg/FR-2004-05-11/pdf/04-10352.pdf

2 CFR Part 220 Cost Principles for Educational Institutions (OMB Circular A-21)
https://www.gpo.gov/fdsys/pkg/FR-2005-08-31/pdf/05-16648.pdf

2 CFR Part 200 Subpart E Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards
http://www.ecfr.gov/cgi-bin/text-idx?node=2:1.1.2.2.1.5&rgn=div6

48 CFR Part Chapter 99 and part 30 (FAR Part 30)
https://www.ecfr.gov/cgi-bin/text-idx?SID=21affb872460033fa51b501224357863&mc=true&tpl=/ecfrbrowse/Title48/48C99subchapB.tpl

https://www.ecfr.gov/cgi-bin/text-idx?SID=ff6da27cb3fa613106e008b0600819f4&tpl=/ecfrbrowse/Title48/48chapter30.tpl

Policy 3245, Cost Sharing on Sponsored Projects
http://www.policies.vt.edu/3245.pdf

Office of Sponsored Programs Policies and Procedures
http://osp.vt.edu/resources/policies.html

Office of Sponsored Programs Form B Cost Accounting Exception Request
http://osp.vt.edu/resources/forms.html

Virginia Polytechnic Institute and State University Cost Accounting Standards Disclosure Statement
https://www.controller.vt.edu/content/dam/controller_vt_edu/resources/costaccounting/DS-2%20Revision%20No%206A%20-%20July%201%202021%20-%20Revision%20for%20Audit.pdf

6.0 Approval and Revisions

- Approved January 21, 1998 by Vice President for Finance and Treasurer, Raymond D. Smoot, Jr.

- Revision 1
  Update policy to comply with latest revision of OMB Circular A-21 dated 5/10/04.

  Approved February 15, 2005 by the Vice President for Budget and Financial Management, M. Dwight Shelton, Jr.

- Revision 2
  Policy underwent a complete revision and expansion in all significant areas. Key changes include updating policy title from “Consistency in Charging Administrative and Clerical Costs" to “Costing Principles for Sponsored Projects;” adding basic considerations for costing principles; updating changes in federal regulations; and incorporating OSP procedures.

  Approved January 3, 2017 by the Vice President for Finance and Chief Financial Officer, M. Dwight Shelton, Jr.