



# UNIVERSITY CORPORATION AT MONTEREY BAY

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## 531-007-D: DIRECT AND F&A COSTING POLICY

### I. Policy Overview

This policy provides guidance for the appropriate charging of costs to sponsored projects for the University Corporation at Monterey Bay (“University Corporation” or “CSUMB”). The University Corporation must comply with Office of Management & Budget’s (OMB’s) Code of Federal Regulations Part 200 - Uniform Administrative Requirement, Cost Principles and Audit Requirements for Federal Awards (“Uniform Guidance”). Compliance with the Uniform Guidance is implicit in this policy. Furthermore, where a sponsor has requirements or restrictions in addition to the Federal regulations listed above, CSUMB must also comply with those additional sponsor requirements or restrictions and award terms and conditions. All references to the federal government also apply to the State of California.

This policy does not apply to non-sponsored projects, specialized service facilities (see 531-006-B: Service Center Policy), and other non-sponsored agreements.

As a recipient of federal funding, University Corporation is subject to numerous financial accounting and reporting obligations, including but not limited to those set forth in the OMB Uniform Guidance. Failure to adhere to the provisions of this Policy may result in the sponsors, or other government agencies, disallowing costs or imposing other sanctions, and unfavorable findings during program or other federal audits, potentially putting CSUMB at risk for additional funding. In addition see also the Repayment of Unallowed and Disallowed Costs Policy.

It is the responsibility of Principal Investigators (“PIs”), Project Directors, department heads, Sponsored Programs Office staff, University Corporation Post Award Accounting Office staff, research center staff, and other administrators to understand and comply with federal regulations. The purpose of this policy is to assist those responsible individuals in making decisions so that CSUMB is consistent in its assignment of costs across all sponsored projects and institutional activities.

### II. Terms and Definitions

- A. *Direct Costs*: identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like

circumstances must be treated consistently as either direct or F&A (indirect) costs. Where University Corporation treats a particular type of cost as a direct cost of sponsored projects, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all University Corporation activities.

Common types of Direct Costs on sponsored projects include:

- Compensation (e.g. salaries, wages, fringe benefits)
- Materials & Supplies
- Purchased Services
- Travel
- Equipment
- Subcontracts

- B. *Facilities and Administrative (“F&A”) Costs:* or “indirect costs” are those costs incurred for common or joint objectives and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs. Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. As above, costs incurred for the same purpose in like circumstances must be treated consistently as F&A costs.

Common types of Facilities Costs on sponsored projects include:

- Repair and Maintenance (e.g. equipment, buildings, grounds)
- Custodial Services
- Security
- Depreciation and Interest Associated with Financing of Buildings and Equipment
- Utilities
- Library costs

Common types of Administrative Costs on sponsored projects include:

- Executive Management
- Accounting, Payroll Budgeting and Personnel Administration,
- Departmental Administration
- Sponsored Projects Administration
- Compensation (i.e. salaries, wages and fringe benefits) for Administrative/Clerical Staff
- Insurance
- Telephone and Internet (e.g. monthly bills, installation, maintenance)
- Basic Office Supplies
- Subscriptions/Periodicals
- Office and General Equipment (e.g. desks, chairs, computers)
- Photocopying
- Postage

- C. *Sponsored Programs*: Programs sponsored in whole or in part by external sources for which the sponsor expects performance, deliverables or outcomes within the constraints of an agreed upon scope and budget. Sponsored programs are awarded through various mechanisms – grants, contracts, or cooperative agreements – and may be from public or private sources. Gifts are not included in sponsored programs.
- D. *F&A Cost Rate*: negotiated rate used by CSUMB to recover F&A costs incurred by the institution in the conduct of performing sponsored projects. The rates are applied to federal, state and other sponsored projects in order to recover University Corporation and CSUMB F&A costs.

### III. Cost Principles

The OMB Uniform Guidance establishes principles for determining direct and F&A (indirect) costs applicable to grants, contracts, and other agreements with educational institutions. This helps to define the financial framework for administering federally sponsored research as well as describes the basis for calculating facilities and administrative cost rates. The four guiding principles include: reasonable, allocable, allowable, and treated consistently. For a given cost to be charged to a sponsored project, all four of these criteria must be met and documented.

Characteristic	Definition & Considerations
<b>Allowable</b>	<ul style="list-style-type: none"> <li>● <u>Definition</u>: Items not restricted by federal regulations, sponsor requirements and/or the terms of the specific award</li> <li>● <u>Considerations</u>:               <ul style="list-style-type: none"> <li>○ Does the cost conform to limitations or exclusions set forth in federal/sponsor regulations?</li> <li>○ Are there any additional award terms and conditions that restrict the charge?</li> </ul> </li> </ul>
<b>Reasonable</b>	<ul style="list-style-type: none"> <li>● <u>Definition</u>: Goods or services acquired and amount involved that reflect an action a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made</li> <li>● <u>Considerations</u>:               <ul style="list-style-type: none"> <li>○ Is the cost is necessary for the operation of the institution or performance of an award?</li> <li>○ Is the cost (and price) consistent with institutional policies?</li> </ul> </li> </ul>
<b>Allocable</b>	<ul style="list-style-type: none"> <li>● <u>Definition</u>: Goods or services assignable and therefore chargeable to such cost objectives in accordance with relative benefits received               <ul style="list-style-type: none"> <li>○ Costs incurred for the benefit of only one project or that can be readily assigned to multiple projects (sponsored and non-sponsored) which benefit from</li> </ul> </li> </ul>

	<p>the cost</p> <ul style="list-style-type: none"> <li>● <u>Considerations:</u> <ul style="list-style-type: none"> <li>○ Is the cost incurred solely to advance the work under the sponsored award charged?</li> <li>○ If charged to multiple awards, does the cost benefit the charged awards in proportion to the portion charged?</li> <li>○ Is the cost necessary to the overall operation of the school/Department/investigator?</li> </ul> </li> </ul>
<b>Treated Consistently</b>	<ul style="list-style-type: none"> <li>● <u>Definition:</u> “Like” goods or services that are treated consistently throughout the College in similar circumstances</li> <li>● <u>Considerations:</u> <ul style="list-style-type: none"> <li>○ Is the cost is treated consistently when incurred for the same purpose, in like circumstances, as either a direct cost or F&amp;A cost ?Are the same types of costs charged to awards only as direct costs or as F&amp;A costs?</li> </ul> </li> </ul>

#### IV. Assignment of Direct Costs

The following section provides guidance to CSUMB and University Corporation personnel regarding the appropriate criteria to consult when determining whether certain costs may be charged directly to a sponsored project versus recovered through the F&A rate.

**B. Apportionment Methodologies:** If a typically direct cost benefits two or more projects/activities in proportions that can be determined without undue effort or cost, the cost should be apportioned to the projects/activities based on the proportional benefit. If proportions cannot be determined due to the interrelationship of the work, then costs may be apportioned on any fair and reasonable basis.

Apportionment methodologies that may be used as a basis for assigning costs include the following:

- Effort
- Space (square footage)
- Head count
- FTEs per project
- Number of experiments performed
- Usage records (supply logs, copier logs, hours used logs)
- Percentage of lab-staff time in lab
- Percentage PI time in lab (if s/he is a user of the item)

Apportionment methodologies should be documented and auditable. Documentation should indicate how the apportionment methodology is logically related to the cost being allocated and how the method (usage, time, effort, FTEs, etc.) relate to the benefit received. This documentation and support should be incorporated and included in paperwork/documentation to facilitate central

University Corporation review and retention.

Prohibited apportionment methodologies include the following:

- Charging the entire cost to one project when the cost benefits more than one project
- Rotating charges among projects month by month without establishing that the rotation schedule credibly reflects the relative benefit to each project
- Splitting the costs evenly across the projects
- Charging the budgeted amount in contrast to charging an amount based on benefit relationship
- Assigning charges to the project with the largest remaining balance

**C. Unlike Circumstances:** Costs normally treated and charged as F&A costs may be charged directly to sponsored projects when special or “unlike circumstances” prevail. “Unlike circumstances” generally exist when a sponsored project or activity, due to its size and nature, requires the use of typically F&A goods or services (administrative or clerical services, office supplies, postage and/or telecommunication services) that is well beyond the core of support routinely provided for institutional activities (i.e., the actual activities charged direct are not the same as the actual activities normally included in the institution’s F&A cost pools or, if the same, the F&A activity costs are immaterial in amount). It would be inappropriate to charge the cost of such activities directly to specific sponsored projects if, in similar circumstances, the costs of performing the same type of activity for other sponsored projects were included as allocable costs in the institution’s F&A cost pools.

The evaluation of Unlike Circumstances is made on a case-by-case basis, and in such cases, charges for typically F&A goods or services can be posted directly to a sponsor award in proportion to the relative benefit received.

Generally, the evaluation should occur at the proposal preparation stage. A justification must be provided to the Sponsored Programs Office describing the need and circumstances for direct charging. SPO reviews the request, and if the specific situation meets the criteria listed below, may approve the direct treatment of the cost:

- The costs are integral to the project or activity
- The sponsored project has an extraordinary need for the item or service that is beyond the level of services normally provided by the academic department (e.g., there are unlike circumstances)
- The cost can be specifically identified to the technical scope of work conducted under the project and will be appropriately documented
- The cost will be specified in the proposed budget of the sponsored project and the special circumstances requiring direct charging will be justified in the proposal budget justification

**NOTE 1:** The fact that a specific cost is requested in a budget and is awarded

by the granting agency does not ensure its allowability. CSUMB is responsible for budgeting costs consistently and in compliance with the cost principles in the Uniform Guidance.

In cases when the Unlike Circumstances are identified after an award is made, the PI must re-budget and work with SPO to obtain sponsor approval.

#### D. Considerations for Specific Items of Cost:

- **Administrative & Clerical Salaries:** The OMB Uniform Guidance does allow allocable administrative and clerical support to be charged directly to a sponsored project, regardless of a “major project” designation. This does not eliminate, but emphasizes, the requirements for allocability and consistent treatment. Administrative and clerical salaries should only be charged to sponsored awards when “unlike circumstances” apply. In cases of federally sponsored awards, prior approval must be obtained by the federal award agency (either by including the charge in the proposed budget or specifically requesting approval from the sponsor). Prior to charging administrative or clerical salaries to federally sponsored awards, Principal Investigators should coordinate with SPO to ensure the proper approvals are in place. (Note: Prior approval to direct charge Administrative and Clerical support is subject to applicable waivers as outlined by federal sponsoring agencies.)
  
- **Computing Devices:** The OMB Uniform Guidance allows for the charging of computing devices (laptops, tablets, cellphones with a unit cost of \$5,000 or less) that are essential and allocable to a sponsored award to be directly charged to federal awards without sponsor prior approval. As with all sponsored charges, all cost principles must apply and the standard practices followed for determining and documenting allocability of computing devices.
  - Please note, simply utilizing a computing device solely for the purposes of one award does not make the charge allowable on federal awards. The need for the device for the operation of the project (reasonableness) is required in addition to allocability and allowability.

#### V. Effective Date of Policy

This policy is effective as of fiscal year 2015-2016.

#### VI. Summary of Selected Items of Cost from Uniform Guidance

<b>Selected Cost Items</b>	<b>Applicable Uniform Guidance Section</b>
Advertising and public relations costs	Unallowable with stipulations. §200.421
Advisory councils	Allowable with stipulations. §200.422 and §200.444
Alcoholic beverages	Unallowable §200.423
Alumni activities	Unallowable §200.424
Audit and related services	Allowable with restrictions §200.425

Bad debts	Unallowable §200.426
Bonding costs Allowable with stipulations	Allowable with stipulations §200.427
Collection of improper payments	Allowable with stipulations §200.428 and §200.305
Commencement and convocation costs	Unallowable except for provisions in Appendix III Part 200 paragraph B9. §200.429
Compensation- personal services and fringe benefits	Allowable with restrictions §200.430-31
Conferences	Allowable with restrictions §200.432
Contingency provisions	Unallowable with stipulations §200.433
Contributions and donations	Unallowable with stipulations §200.434
Defense and prosecution of criminal and civil Proceedings, claims, appeals and patent infringement	Unallowable with stipulations §200.435
Depreciation	Allowable with stipulations §200.436
Employee morale, health, and welfare costs	Allowable with stipulations §200.437
Entertainment costs	Unallowable unless programmatic and receive prior approval from Federal agency §200.438
Equipment and other capital expenditures	Allowable with stipulations §200.439
Exchange Rates	Allowable with stipulations §200.440
Fines and penalties	Unallowable with stipulations §200.441
Fund raising and investment management costs	Unallowable with stipulations §200.442
Gains and losses on disposition of depreciable assets	Allowable with stipulations §200.443
General costs of government	Unallowable with stipulations §200.444
Goods or services for personal use	Unallowable §200.445
Idle facilities and idle capacity	Unallowable with stipulations §200.446
Insurance and indemnification	Allowable with stipulations §200.447
Intellectual property	Allowable with stipulations §200.448
Interest	Allowable with stipulations §200.449
Lobbying	Unallowable with stipulations §200.450
Losses on other awards or contracts	Unallowable §200.451
Maintenance and repair costs	Allowable §200.452
Material and supplies costs	Allowable §200.453

Memberships, subscriptions and professional activity costs	Allowable with stipulations §200.454
Organization costs	Unallowable except with prior Federal approval §200.455
Participant support costs	Allowable with prior approval §200.456
Plant and security costs	Allowable §200.457
Pre-award costs	Unallowable with stipulations §200.458
Professional service costs	Allowable with stipulations §200.459
Proposal costs	Allowable with stipulations §200.460
Publication and printing costs	Allowable with stipulations §200.461
Rearrangement and reconversion costs	Allowable §200.462
Recruiting costs	Allowable with stipulations §200.463
Relocation costs of employees	Allowable with stipulations §200.464
Rental costs of buildings and equipment	Allowable with stipulations §200.465
Scholarships and student aid costs	Allowable with stipulations §200.466
Selling and marketing	Unallowable with stipulations §200.467
Specialized service facilities	Allowable with stipulations §200.468
Student activity costs	Unallowable with stipulations §200.469
Taxes	Allowable with stipulations §200.470
Termination costs applicable to sponsored agreements	Allowable with stipulations §200.471
Training and education costs	Allowable §200.472
Transportation costs	Allowable with stipulations §200.473
Travel costs	Allowable with stipulations §200.474
Trustees	Allowable §200.475

## VII. Adoption and Review

- A. The University Corporation's Board of Directors has adopted this Direct Cost Policy on 26 June 2008.
1. The University Corporation's Board of Directors has adopted this Direct Cost Policy-B on 24 June 2010.
  2. The University Corporation's Board of Directors has adopted this Direct Cost Policy-C on 8 August 2013.
  3. The University Corporation's Board of Directors has adopted this Direct Cost Policy-D on 23 June 2016.
- B. The policy shall be evaluated ten years from its adoption date to determine its effectiveness and appropriateness. The policy may be evaluated before that time as necessary to reflect substantial organizational, financial, or physical change(s) at the University Corporation or any change required by law or by other governing policy.

Any proposed amendments or variations of this policy would require a majority approval by the University Corporation Board of Directors.

#### **VIII. Related Documents**

- A. 533-007-B Direct and F&A Costing Procedures & Guidance
- B. 531-009-A: Repayment of Unallowed/Disallowed Costs
- C. 531-006-B Service Center Policy
- D. Office of Management & Budget's (OMB's) Code of Federal Regulations Part 200 – Uniform Administrative Requirement, Cost Principles and Audit Requirements for Federal Awards (“Uniform Guidance”)
  - Subpart E—Cost Principles: Direct and Indirect (F&A) Costs
    - i. §200.412 Classification of costs.
    - ii. §200.413 Direct Costs
    - iii. §200.414 Indirect (F&A) Costs