Cost Determination Guidelines

OVERVIEW

The guidelines in this section take into account the unique needs and requirements of the University's research community in order to comply with the requirements of the federal and University rules and agreements described below. The applicable guidelines depend upon the grant award date:

• Grants awarded prior to December 26, 2014
• Grants awarded on or after December 26, 2014

GRANTS AWARDED PRIOR TO DECEMBER 26, 2014

Rules and Agreements

The following federal and University rules and agreements apply to grants awarded prior to December 26, 2014:

• OMB Circular A-21, Cost Principles for Educational Institutions, which includes the federal Cost Accounting Standards (CAS).

This circular (A-21) provides principles for determining costs applicable to research and development, training, and other sponsored work performed by the University on federally-funded sponsored agreements.

• OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations.

This circular (A-110) outlines requirements for written procedures for determining the reasonableness, allocability, and allowability of federally-funded award costs.

• Federal Demonstration Partnership (FDP) terms and conditions.
• University's Cost Accounting Standards (CAS) Disclosure Statement.
• University's facilities and administrative (F&A) cost agreement with the federal government.

Future modifications to this and other internal policies may be necessary as the federal government issues further adjustments and interpretations.
Responsibility

The University delegates considerable authority and responsibility for fiscal compliance to principal investigators (PIs) and departments (see BPPM 40.0). This requires the development of significant expertise at the department level and relies heavily on PIs and departmental fiscal staff to comply with WSU policies and various sponsor rules and regulations.

Definitions

Reasonableness

Project costs may be considered reasonable if the nature and amount of the goods or services acquired or applied reflect a prudent person's decision under similar circumstances to incur such costs.

See OMB Circular A-21 Section C.3 for major considerations involved in the determination of the reasonableness of a cost.

Allocability

Allocable costs are expenses that may be assigned or charged to one or more sponsored project cost objectives, in accordance with the relative benefits received or other equitable relationship. Project costs must advance, benefit, or be necessary for the sponsored agreement to be allocable. See OMB Circular A-21, Section C.4.

Allowability

According to OMB Circular A-21, a cost may be charged to a sponsored agreement only if it meets all of the following criteria:

• It must be a reasonable cost.
• It must be allocable to the sponsored program.
• It must be treated consistently, through the application of generally accepted accounting principles.
• It must be within the type and dollar amount limitations specifically defined in OMB Circular A-21 and the particular contract or agreement.

Direct Costs

Direct costs are defined as costs that can easily and with a high degree of accuracy be identified or assigned specifically with one of the following:

• A particular sponsored project
• An instructional activity
• Any other institutional activity
Cost Determination Guidelines

Direct Costs (cont.) See also Distribution of Direct Costs.

A cost is considered direct when a specific grant or contract gains explicit benefit from the cost for a specific programmatic purpose. For example, when a PI's activity involves scientific effort on a particular grant or contract, his or her salary is an allowable direct cost to that grant or contract (see BPPM 40.34).

Facilities and Administrative (F&A) Costs

Facilities and administrative costs are expenditures incurred by a sponsored project (programs 11-14) that are not readily identified with that project (see BPPM 40.25). (OMB Circular A-21, Section E.1)

Consistent Treatment of Costs

Consistent treatment of costs is a basic cost accounting principle. Federal guidelines specifically require consistency to ensure that the same types of costs are not charged to grants and contracts as both direct and F&A costs. This requirement ensures that the federal sponsor is not paying twice for the same costs in like circumstances. (OMB Circular A-21 and Cost Accounting Standard 502 (OMB Circular A-21, Section C.11.a))

Direct Costs

University departments must consistently treat costs incurred for the same purpose in like circumstances as either direct or F&A costs. Where the University treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in similar circumstances must be treated as direct costs. (OMB Circular A-21, Section D.1)

Application to Sponsored Programs

Identification with the sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from F&A costs of sponsored agreements. Typical costs charged directly to a sponsored agreement are the compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs to the extent they are consistently treated, in like circumstances, by the University as direct rather than F&A costs; the costs of materials consumed or expended in the performance of the work; and other items of expense incurred for the sponsored agreement, including extraordinary utility consumption. The cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be included as direct costs of sponsored agreements, provided such items are consistently treated, in like circumstances, by the University as direct rather than F&A costs, and are charged under a recognized method of
Cost Determination Guidelines

Application to SP (cont.)

computing actual costs, and conform to generally accepted cost accounting practices consistently followed by the University. (OMB Circular A-21, D.2)

Costs that are normally F&A costs may be charged to nonfederally sponsored agreements if permitted by the sponsors' policies/practices or otherwise approved by the sponsors.

Off-Campus Only

For off-campus projects only, other direct costs include facilities costs, e.g., rent, maintenance, security, utilities. Off-campus facilities are defined as facilities that are not owned and/or leased by the University and are not maintained or operated by University Facilities Services, Operations.

Facilities and Administrative (F&A) Costs

Facilities and administrative costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. See OMB Circular A-21 Section F.1 for a discussion of the components of F&A costs.

Normally, F&A costs (often called overhead) are those costs that accrue from the general operation of the University. Such costs normally are classified under the following categories:

- Depreciation and use allowances
- General administration and general expenses
- Sponsored projects administration expenses
- Operation and maintenance expenses
- Library expenses
- Departmental administration expenses
- Student administration and services

Following are examples of F&A costs:

- Building depreciation
- Maintenance costs
- Electricity and heat costs
- Accounting services
- Personnel services
- Departmental administration
- Purchasing
- Human subjects administration
Cost Determination Guidelines

Distribution of Direct Costs

OMB Circular A-21, Section C.4.d.(3) provides two methods for allocating an allowable direct cost to two or more sponsored projects: the proportional benefit rule and the interrelationship rule.

Proportional Benefit Rule

The proportional benefit rule applies when a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost. The department allocates the cost according to the proportion of benefit provided to each project.

Example

The department might allocate the cost of laboratory supplies based upon the quantity used (or planned to be used) on each project.

Interrelationship Rule

The interrelationship rule applies when a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved. The department distributes the cost on any reasonable basis because the proportional benefit cannot be quantified and identified to the individual projects.

Example

The department might allocate the cost of laboratory supplies based upon the allocation of employee salaries to each project.

Departmental Administration

The following guidelines apply to the determination of departmental administrative costs as direct or F&A costs: (OMB Circular A-21, F.6.b)

- In developing the departmental administration cost pool, special care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs. For example, salaries of technical staff, laboratory supplies (e.g., chemicals), telephone toll charges, animals, animal care costs, computer costs, travel costs, and specialized shop costs shall be treated as direct cost wherever identifiable to a particular cost objective. Direct charging of these costs may be accomplished through specific identification of individual costs to benefiting cost objectives, or through recharge centers or specialized service facilities, as appropriate under the circumstances.

- Salaries of administrative and clerical staff should normally be treated as F&A costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets
Cost Determination Guidelines

Dept. Admin. (cont.)

- Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs.
  
  (OMB Circular A-21, F.6.b)

Other Normal F&A Costs Treated as Direct Costs

- Office supplies
- Postage
- Basic local telephone services on campus
  Basic services include phone installation, monthly line charges, basic instruments.
- Memberships

Such costs may be treated as direct costs only under special or unique circumstances.

Justification

These types of costs may be directly charged only if they meet the following requirements:

- The project has a special need for the item or service involved that is beyond the level of services normally provided.
- The costs can be specifically identified to the work conducted under the project.
- The costs are specified in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal.
- The sponsoring agency accepts the cost as part of the projects direct cost budget; i.e., the sponsor does not specifically disapprove the cost in the award or in other notices it gives to the University.
- The costs are not also recovered as indirect costs.
Cost Determination Guidelines

Examples

The following are examples of unique circumstances justifying direct charges:

- Office supplies/postage
  Envelopes used to mail an unusually large number of research questionnaires.

- Basic local telephone service on campus
  A hotline or crisis line that is specifically required by a grant or contract.

- Memberships
  A membership in a professional or scientific organization if joining is the only means of obtaining a specific journal or periodical directly related to a grant or contract.

Rebudgeting of Normal F&A Costs

When a need arises and the sponsoring agencies permit rebudgeting after a project has started; a department may request the rebudgeting of normal F&A costs.

See also BPPM 40.23.

GRANTS AWARDED ON OR AFTER DECEMBER 26, 2014

Rules and Agreements

The following federal and University rules and agreements apply to grants awarded on or after December 26, 2014:

- 2 CFR 200, Subpart E—Cost Principles, which includes the federal Cost Accounting Standards (CAS). This section (Subpart E) provides principles for determining costs applicable to research and development, training, and other sponsored work performed by the University on federally-funded sponsored agreements.

- 2 CFR 200: Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. This CFR chapter of Uniform Guidance (2 CFR 200) outlines requirements for written procedures for determining the reasonableness, allocability, and allowability of federally-funded award costs.

- Federal Demonstration Partnership (FDP) terms and conditions.
Cost Determination Guidelines

Rules and Agreements (cont.)
- University's Cost Accounting Standards (CAS) Disclosure Statement.
- University's (F&A) cost agreement with the federal government.

Future modifications to this and other internal policies may be necessary as the federal government issues further adjustments and interpretations.

Responsibility
The University delegates considerable authority and responsibility for fiscal compliance to principal investigators (PIs) and departments (see BPPM 40.01). This requires the development of significant expertise at the department level and relies heavily on PIs and departmental fiscal staff to comply with WSU policies and various sponsor rules and regulations.

Definitions

Reasonableness
A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision is made to incur the cost.

See 2 CFR 200.404 for major considerations involved in the determination of the reasonableness of a cost.

Allocability
Allocable costs are expenses that may be assigned or charged to one or more sponsored project cost objectives, in accordance with the relative benefits received or other equitable relationship. Project costs must advance, benefit, or be necessary for the sponsored agreement to be allocable. See 2 CFR 200.405.

Allowability
According to 2 CFR 200.403, a cost may be charged to a sponsored agreement only if it meets all of the following criteria:

- The cost is necessary and reasonable for the performance of the federal award and is allocable to the sponsored project under these principles.

- The cost conforms to any limitations or exclusions set forth in 2 CFR 200.403 or in the federal award as to types or amount of cost items.
Cost Determination Guidelines

Allowability (cont.)

- The cost is consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-federal entity.

- The cost is accorded consistent treatment. 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 indirect cost.

- The cost is determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in 2 CFR 200.403.

- The cost is not included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also 2 CFR 200.306 Cost sharing or matching, paragraph (b).

- The cost is adequately documented. See also 2 CFR 200.300—Statutory and national policy requirements through -200.309—Period of performance of this part.

Direct Costs

Direct costs are those costs that can be 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 indirect (F&A) costs.

See 2 CFR 200.413.

A cost is considered direct when a specific grant or contract gains explicit benefit from the cost for a specific programmatic purpose. For example, when a PI's activity involves scientific effort on a particular grant or contract, his or her salary is an allowable direct cost to that grant or contract (see BPPM 40.34).

Facilities and Administrative (F&A) Costs

Facilities and administrative costs are expenditures incurred by a sponsored project (programs 11-14) that are not readily identified with that project (see BPPM 40.25). (2 CFR 200.414)
Cost Determination Guidelines

Consistent Treatment of Costs

Consistent treatment of costs is a basic cost accounting principle. Federal guidelines specifically require consistency to ensure that the same types of costs are not charged to grants and contracts as both direct and F&A costs. This requirement ensures that the federal sponsor is not paying twice for the same costs in like circumstances. (2 CFR 200.403(d) and Cost Accounting Standard 502 (2 CFR 200.419))

Direct Costs

University departments must consistently treat costs incurred for the same purpose in like circumstances as either direct or F&A costs. Where the University treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in similar circumstances must be treated as direct costs. See 2 CFR 200.413.

Application to Sponsored Programs

Identification with the sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from F&A costs of sponsored agreements. Typical costs charged directly to a sponsored agreement are the compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs to the extent they are consistently treated, in like circumstances, by the University as direct rather than F&A costs; the costs of materials consumed or expended in the performance of the work; and other items of expense incurred for the sponsored agreement, including extraordinary utility consumption. The cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be included as direct costs of sponsored agreements, provided such items are consistently treated, in like circumstances, by the University as direct rather than F&A costs, and are charged under a recognized method of computing actual costs, and conform to generally accepted cost accounting practices consistently followed by the University. (2 CFR 200.413(b))

Costs that are normally F&A costs may be charged to nonfederally sponsored agreements if permitted by the sponsors' policies/practices or otherwise approved by the sponsors.

Off-Campus Only

For off-campus projects only, other direct costs include facilities costs, e.g., rent, maintenance, security, utilities, etc. Off-campus facilities are defined as facilities which are not owned and/or leased by the University and which are not maintained or operated by University Facilities Services, Operations.
Facilities and Administrative (F&A) Costs

Facilities and administrative costs are those that are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored project, an instructional activity, or any other institutional activity. See 2 CFR 200.414(a) for a discussion of the components of F&A costs.

Normally, F&A costs (often called overhead) are those costs that accrue from the general operation of the University. For institutions of higher education and major nonprofit organizations, indirect (F&A) costs must be classified within two broad categories: facilities and administration. Facilities is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. Administration is defined as general administration and general expenses such as the director's office, accounting, personnel, and all other types of expenditures not listed specifically under one of the subcategories of facilities (including cross allocations from other pools, where applicable). For nonprofit organizations, library expenses are included in the administration category; for institutions of higher education, they are included in the facilities category.

Following are examples of F&A costs:

- Building depreciation
- Maintenance costs
- Electricity and heat costs
- Accounting services
- Personnel services
- Departmental administration
- Purchasing
- Human subjects administration

Distribution of Direct Costs

2 CFR 200.405(d) provides two methods for allocating an allowable direct cost to two or more sponsored projects: the proportional benefit rule and the interrelationship rule.

Proportional Benefit Rule

The proportional benefit rule applies when a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost. The department allocates the cost according to the proportion of benefit provided to each project.
Cost Determination Guidelines

**Example**

The department might allocate the cost of laboratory supplies based upon the quantity used (or planned to be used) on each project.

**Interrelationship Rule**

The interrelationship rule applies when a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved. The department distributes the cost on any reasonable basis because the proportional benefit cannot be quantified and identified to the individual projects.

**Example**

The department might allocate the cost of laboratory supplies based upon the allocation of employee salaries to each project.

**Departmental Administration**

The following guidelines apply to the determination of departmental administrative costs as direct or F&A costs: (2 CFR 200, Appendix III to Part 200, Section B.6.b)

- In developing the departmental administration cost pool, special care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or F&A costs. For example, salaries of technical staff, laboratory supplies (e.g., chemicals), telephone toll charges, animals, animal care costs, computer costs, travel costs, and specialized shop costs shall be treated as direct cost wherever identifiable to a particular cost objective. Direct charging of these costs may be accomplished through specific identification of individual costs to benefiting cost objectives, or through recharge centers or specialized service facilities, as appropriate under the circumstances.

- For federal awards, the salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if all of the following conditions are met from 2 CFR 200.413(c)'s 4 Point Test as noted below:
  - Administrative or clerical services are integral to a project or activity.
  - Individuals involved can be specifically identified with the project or activity.
  - Such costs are explicitly included in the budget or have the prior written approval of the federal awarding agency.
Cost Determination Guidelines

Dept. Admin. (cont.)

- The costs are not also recovered as indirect costs.
  - Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A costs.
    
    (2 CFR 200, Appendix III, Section B.6.b.2)

Other Normal F&A Costs Treated as Direct Costs

The following additional costs are usually treated as F&A costs, as noted in 2 CFR 200, Appendix III, Section B.6.b.2. Such costs may be treated as direct costs only under special or unique circumstances.

- Office supplies
- Postage
- Basic local telephone services on campus
- Basic services include phone installation, monthly line charges, basic instruments.
- Memberships

Justification

These types of costs may be directly charged only if they meet the following requirements:

- The project has a special need for the item or service involved that is beyond the level of services normally provided.
- The costs can be specifically identified to the work conducted under the project.
- The costs are specified in the proposed budget of the sponsored agreement, and the special circumstances requiring direct charging are justified in the proposal.
- The sponsoring agency accepts the cost as part of the projects direct cost budget; i.e., the sponsor does not specifically disapprove the cost in the award or in other notices it gives to the University.
- The costs are not also recovered as indirect costs.
Cost Determination Guidelines

Examples

The following are examples of unique circumstances justifying direct charges:

- Office supplies/postage
  Envelopes used to mail an unusually large number of research questionnaires.
- Basic local telephone service on campus
  A hotline or crisis line that is specifically required by a grant or contract.
- Memberships
  A membership in a professional or scientific organization if joining is the only means of obtaining a specific journal or periodical directly related to a grant or contract.

Rebudgeting of Normal F&A Costs

When a need arises and the sponsoring agencies permit rebudgeting after a project has started, a department may request the rebudgeting of normal F&A costs.

See also BPPM 40.23.