

## Cost Determination Guidelines

**NOTE:** The website URL for **Workday reference guides** that are referenced in this section is:  
<https://confluence.esg.wsu.edu/display/WKB/Workday>

### 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 on or after December 26, 2014](#)
- [Grants awarded prior to December 26, 2014](#)

### DEFINITIONS

#### Cost Principles

The cost principles include *reasonableness*, *allocability*, *consistency*, and *allowability*. The principles must be used in determining whether direct costs are allowable under sponsored awards.

#### 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.

#### Allowability

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 award and is allocable to the sponsored project under these principles.
- The cost conforms to any limitations or exclusions set forth in Uniform Guidance or in the 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 an award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the 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 Uniform Guidance.
- 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.
- The cost is adequately documented.

### Consistency

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/indirect costs. This requirement ensures that the sponsor is not paying twice for the same costs in like circumstances. 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.

### 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 F&A/indirect 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, their salary is an allowable direct cost to that grant or contract.

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**Facilities and Administrative (F&A)/Indirect Costs** Facilities and administrative (F&A)/indirect costs are expenditures incurred by a sponsored project (Workday grant function FN017 and funds FD035-FD048, and FD085) that are not readily identified with that project (see *BPPM* 40.25).

## 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 chapter of *CFR* Title 2 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 (DS-2).
- University's F&A/Negotiated Indirect Cost Rate Agreement (NICRA) 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 award terms and conditions.

## Cost Determination Guidelines

### Application to Sponsored Programs

The cost principles and identification with the sponsored work (allocability), rather than the nature of the goods and services involved, is the determining factor in distinguishing direct from F&A/indirect costs of sponsored agreements. Costs charged directly to a sponsored agreement must meet the cost principles and typically include:

- 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/indirect 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/indirect 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.

### 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 campus Facilities Services departments.

### F&A/Indirect Costs

F&A/indirect 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.

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### F&A/Indirect Costs (cont.)

Normally, F&A/indirect 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, F&A/indirect 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/indirect costs:

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

### Distribution Of Direct Costs

Uniform Guidance 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.

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### 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 equipment 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/indirect costs:

- 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/indirect costs. For example, the following costs are treated as direct cost wherever identifiable to a particular cost objective:
  - Technical staff salaries
  - Laboratory supplies (e.g., chemicals)
  - Telephone toll charges
  - Animals and animal care
  - Computers
  - Travel
  - Specialized shop

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/indirect costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity.

*Major project* is defined as a project that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by academic departments.

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Dept. Admin. (cont.)

Direct-charging of administrative salaries must be approved by both the sponsor and the Office of Research Support and Operations (ORSO) before the costs are direct-charged to sponsored agreements.

- Items such as office supplies, postage, local telephone costs, and memberships are normally be treated as F&A costs.

Other Normal F&A/Indirect  
Costs Treated as Direct Costs

The following additional costs are usually treated as F&A/indirect costs, as noted in Uniform Guidance:

- Office supplies
- Postage
- Basic local telephone services on campus

Basic services include phone installation, monthly line charges, basic instruments.

- Memberships

NOTE: 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.

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Office of Research Support and Operations

509-335-9661

Sponsored Programs Services

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## **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/Indirect 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/indirect costs.

See also the Workday Create Sponsored Account Request reference guide.

### **GRANTS AWARDED PRIOR TO DECEMBER 26, 2014**

For grants awarded prior to December 26, 2014, refer to the following OMB Circulars and requirements:

- 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.



## **Cost Determination Guidelines**

### **GRANTS PRIOR (cont.)**

- 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.