

Oklahoma State University Policy and Procedures

COSTING PRACTICES FOR SPONSORED RESEARCH AND SERVICE PROJECTS

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ADMINISTRATION
& FINANCE
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INTRODUCTION

1.01 Due to OSU's involvement with federal contracts, OSU's costing practices for sponsored agreements and contracts must comply with Cost Accounting Standards (CAS) and Federal Uniform Guidance.

Uniform Guidance establishes principles for determining costs applicable to sponsored agreements, contracts, and other agreements with educational institutions. Unless otherwise specified by the sponsoring agency, the revisions to **Uniform Guidance must be implemented for all sponsored programs at Oklahoma State University (OSU), regardless of whether they are funded by private, state, or federal agencies.**

1.02 General Guidelines and Definitions

A. Factors Affecting Allowability of Costs

1. Cost should be **reasonable**. A cost is considered reasonable if the nature of the goods or services acquired or applied and the amount involved reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.
2. Costs should be **allocable** to sponsored agreements under the principles and methods of Uniform Guidance. A cost is allocable to a particular sponsored project if the goods or services involved are chargeable or assignable to the project in accordance with the relative benefits received.
3. CAS and Uniform Guidance emphasize the importance of **consistent application of cost accounting principles**. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. Where the University treats a particular type of cost as a direct cost on sponsored agreements, all costs incurred for the same purpose in like circumstances must be treated as direct costs for all activities of the institution. Consistent treatment of costs is necessary to avoid inappropriate charges to the federal government or other sponsors for sponsored agreements when sponsored agreements are charged directly for specified costs, then charged again through the University's indirect cost rate.

- B. Effective Date of Application of Policy
Implementation of this OSU policy and subsequent revisions became effective July 1, 1996. These costing practices apply to all proposals submitted on July 1, 1996, and thereafter.
- C. Responsibility for Compliance
Responsibility for following this policy **lies primarily with Principal Investigators (P.I.'s) of sponsored projects, department heads, and college/unit fiscal officers** by providing guidance and oversight of research units. The University administration is responsible for guidance and training, and for ensuring compliance through periodic internal and external audits.
- D. Applicability of This Policy
This policy **applies to all sponsored agreements** whether sponsored by an external agency or industry or funded by the University (i.e., university research).

“University research” refers to all research and development activities that are both separately budgeted and accounted for by the University under an internal application of the State appropriated funds. In order for an internally funded research activity to be classified as “university research,” a project must include the following: i) segregated research scope, ii) a technical proposal, iii) a budget proposal, iv) a peer review process, v) awarding of the funds, and vi) submission of a technical report or an exit interview with the dean or department head. The amounts expended as cost sharing for an externally funded research project are also classified as “university research.”

The amounts expended for start-up, seed money, bid, and proposal are classified as **“departmental research.”** An account which is set up to provide faculty with funds for release time to further academic knowledge may be included in the category of “departmental research.” The salaries of some faculty, while “separately budgeted,” should not automatically be considered organized research. Instead, like other professorial salaries, they should be allocated to organized research, departmental research, instruction, extension, and other activities based on the functions performed by the faculty member as the University has **accounted for** them based on time and effort reporting.

Each department in which sponsored agreement activity occurs must follow the costing practices as described in this policy statement. Any exceptions to this policy should be documented by the department and approved by GCFA.

DIRECT COSTS

2.01 The primary direct cost functions of Oklahoma State University are Instruction, Research, Public Service (Extension), and Other Institutional Activities. Costs incurred to support these activities, such as salaries and wages, fringe benefits, materials and supplies, travel, subcontracts, equipment, specialized service center charges, and other operating expenses are treated as direct costs and identified through specific identification of the individual costs to the benefiting projects and activities, as appropriate under the circumstances. If a direct cost benefits two or more

sponsored agreements/projects, Uniform Guidance provides standards for their allocation across these sponsored agreements.

Uniform Guidance is the basis used to determine the procedures used for identification of direct costs by functions to benefiting projects and activities applicable to sponsored, cost sharing, and institutionally supported projects and activities. Identification with the sponsored work rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs of sponsored agreements, provided that such costs are consistently treated, in like circumstances, as direct rather than indirect costs. Committed cost sharing expenses are separately budgeted and accounted for in the accounting records and included in the appropriate direct cost bases by function. Refer to OSU Policy & Procedures Letter 1-0113, *Cost Sharing in Sponsored Research and Service Projects*.

Direct charges to a sponsored agreement should support the sponsored agreement's purpose and activity and are those costs that are necessary to meet the project's scientific and technical requirements. Such charges cannot be assigned arbitrarily, or for the purpose of simplified budget management that is unrelated to the sponsored agreement's purpose. Direct charges to sponsored agreements are expected to adhere to the sponsor's restrictions in the Notice of Award and budget and support the sponsor's programmatic intent.

2.02 Acceptable Direct Costs

Items such as salaries of administrative support staff, office supplies, postage, local telephone costs (including monthly service charges), and membership dues are **normally** treated as indirect costs. However, for **special purposes and circumstances**, costs that are normally indirect may be directly charged if certain conditions are met. Refer to 3.01 and 3.02 in this policy for further information.

2.03 Documentation of Direct Costs

A. The **cost must be identified with activity in the sponsored agreement** to which the cost is charged.

For example:

1. Long distance telephone and fax costs should be linked to the sponsored agreement by means of a log or agreement-specific access code.
2. Purchases for a specific sponsored agreement must identify the grant's account number on the invoice, requisition, purchase order, or other payment document.
3. Supplies drawn from a central storeroom or inventory must be charged directly to a sponsored agreement if their applicability to the sponsored agreement is recorded at the time of withdrawal (e.g., by means of a log). All such costs must be charged to sponsored agreements based on anticipated usage at the time of withdrawal.
4. Services purchased from stores and services should be charged directly to the sponsored agreement under the guidelines stipulated in 2.03(A)(3).

- B. **Documentation** that links the cost incurred to the sponsored agreement activity should be done **by someone who is in a position to know the sponsored agreement activity**; e.g., the person who is making the telephone call or the person taking supplies from a common storeroom or stores and service.
- C. **Documentation must be maintained for a period of three years** following the date the final report is submitted for the sponsored project.
- D. Only **actual costs** may be charged to the sponsored agreement.

2.04 Unacceptable Direct Costing Practices

The following direct costing practices are unacceptable because they do not meet Uniform Guidance's standard for a "high degree of accuracy" in the assignment of costs to sponsored agreements:

- A. **Rotation of charges among sponsored agreements** by month without establishing that the rotation schedule credibly reflects the relative benefit to each sponsored agreement;
- B. **Assigning charges to sponsored agreement with largest remaining balance**;
- C. **Charging the budgeted amount** (in contrast to charging an amount based on actual usage);
- D. **Assigning charges to a sponsored agreement in advance** of the time the actual cost is incurred;
- E. **Identifying a cost as something other than what it actually is**;
- F. **Charging expenses exclusively to sponsored agreements** when the expense has supported nonsponsored agreement activities;
- G. **Assigning charges that are part of normal administrative support** (indirect costs) for sponsored agreements (e.g., accounting, payroll). Refer to 3.01 on INDIRECT COSTS [Facilities and Administrative (F&A) Costs] in this policy.

INDIRECT COSTS [Facilities and Administrative (F&A) Costs]

3.01 Indirect costs are those that are incurred for common or joint activities of the University and, therefore, cannot be identified readily and specifically with a particular sponsored project, instructional activity, or any other University activity.

Expenses incurred for general departmental and institutional business include charges for administrative and clerical salaries, related fringe benefits, office supplies, postage, telecommunications (including local telephone charges), equipment, and other general costs. Costs incurred for administrative and support services that benefit departmental activities and costs incurred by separate departments and organizations established primarily to administer sponsored

projects are identified separately as cost subcodes and by state object code in the accounting records and recognized as indirect expenses.

In instances where sponsored projects require administrative and clerical support, office supplies, postage, and telecommunications (expenses similar to the charges identified normally as administrative costs), such costs may be charged to sponsored agreements as direct costs when ALL of the following conditions are met:

- A. The costs are **required by the project scope due to the project's special purpose or circumstance**;
- B. The costs can be readily **identified specifically** with the project **with a high degree of accuracy**; and
- C. The items of costs are **separately budgeted for**, justified, and approved by the sponsoring agency.

3.02 Special Purposes or Circumstances Where Direct Charging of Costs Normally Treated as Indirect Costs May be Appropriate

The “**special purpose or circumstance**” of the sponsored agreement that necessitates the direct charging of costs that are normally considered to be indirect costs should be stated in the “Statement of Work” section of the proposal/acceptance document. The budget page should include a footnote with reference to the “special purpose or circumstance” that applies to the sponsored project.

The need to charge administrative and clerical support costs as direct charges to a sponsored project may occur for projects that involve the following special purpose or circumstance:

- A. **Private sponsored agreements** that are proposed and awarded for a different purpose than federal agreements--the work proposed and performed in part is for the benefit of the industrial/commercial sponsor and the University. The sponsor's concern is with total costs and not whether the costs are direct or indirect. Private sponsors include private industry, commercial sponsors, foundations, and nonprofit agencies or associations.
- B. **State sponsored agreements** that have restrictions on the types of costs that are direct or indirect--such agreements would constitute a different circumstance than costs incurred under federal agreements. OSU must comply with State agency regulations and statutory requirements. Consequently, costs normally treated as indirect could be treated as direct provided that they are reasonable, specifically identified with the sponsored agreement, and included in the award budget.
- C. **USDA** (United States Department of Agriculture) – Specific USDA agreements that fund indirect costs at the agency mandated rate based on Total Direct Costs (TDC)--the USDA program and legislative mandates have limited the institution's indirect cost recovery rate to a flat rate, and the program requirements support the concept of

direct charging. The agency mandated rate is subject to revision by the USDA annually. The USDA approves specific line item budgets.

- D. **Training Grants**--since they are for a different purpose (training) than a traditional research project, these project budgets may include costs that are normally considered to be indirect costs. Training grants usually identify a line item budget for “institutional allowance” which authorizes direct charging of normally treated indirect costs as appropriate if they are reasonable, specifically identified with the project, and budgeted in the award.
- E. **Planning Grants**--since they are for a different purpose (planning) than a traditional research project, these project budgets may include costs that are normally considered to be indirect costs. Research planning grants may be used for preliminary work to determine the feasibility of a proposed line of inquiry and/or for other activities that will facilitate proposal development. For these types of agreements, the federal agency will fund indirect costs at a specified percentage.
- F. **Projects that are geographically inaccessible** to normal departmental administrative services (i.e., a project that takes place in site(s) that is/are remote from the main campus).
- G. Projects that require **making travel and meeting arrangements** (conferences and seminars) for large numbers of participants.
- H. **Large, complex programs**, such as EPSCoR (Experimental Program to Stimulate Competitive Research), program projects (e.g., Eglin and NASA), environmental research centers, engineering research centers, and other sponsored agreements and contracts that entail assembling and managing teams of investigators from a number of institutions.
- I. Projects which involve **extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting**. For example, if a project requires **substantial mailing expenses** in the performance of the project activities or technical work, postage should be charged as a direct cost of the project.
- J. Projects whose principal focus includes the **preparation and production of manuals, long reports, books and monographs** (excluding routine progress and technical reports).
- K. Individual projects requiring **project-specific database management, individualized graphics or manuscript preparation, human or animal protocol, IRB preparations and/or other project-specific regulatory protocols**, and multiple project-related investigator coordination and communications. If these types of activities are **NOT** being performed by other individuals whose salaries are charged indirectly, then administrative and clerical salaries of the individuals performing these activities could be charged directly to an individual project. Work must be specifically

identified to the project, and the effort funded by the sponsor would also have to be met (at least 15% of FTE effort for this type of project).

3.03 Sponsoring Agency Approval

In order to meet the criteria shown in 3.01 and 3.02 and charge salaries of administrative and clerical staff or other costs (normally treated as indirect costs) directly to a sponsored program, the project proposal budget is required to identify specifically the administrative and clerical salaries and/or other costs which are requested. **These costs must be justified or explained in the proposal/award narrative and in a footnote to the project budget.** Since these items are specifically set forth in the proposal, we assume that the sponsoring agency has approved this exceptional treatment of administrative and clerical salaries or other costs if they accept the proposal and subsequently fund the project. It is the principal investigator's responsibility to notify the college/unit Research Director of any changes made to the proposed budget in preaward negotiation with the sponsor in which the University did not participate.

Further, if a proposal and award has not specifically identified a direct charge requirement for administrative or clerical support or other costs, the university is not allowed to rebudget approved funding into these categories unless specific written approval has been received from the sponsoring agency.

3.04 Charging Salaries of Administrative and Clerical Staff

Three-Step Test for Allowing Direct Charging of Administrative and Clerical Salaries

- A. **The costs are incurred to meet the special purpose or circumstances of the sponsored agreement:**
 1. A special purpose or circumstance of the project exists such as those listed in 3.02 of this policy;
 2. It must be a realistic reflection, through appropriate documentation, of planned or actual effort; **and**
 3. It must be identified in the sponsored agreement budget, fully justified, and approved by the granting agency.
- B. Institution can **“specifically identify”** the individual with the project or activity.
- C. Charge is **“explicitly budgeted”**--as proposed sponsored agreement budgets are developed, the percentage of effort, salaries, and fringe benefits of administrative and clerical positions must be specifically included and reasonably explained in the budgets. Agency approval is also required. This approval is assumed if the salary is budgeted and not specifically denied either in negotiations between the principal investigator and the sponsor or in the notice of grant award. Rebudgeting authority may not be used to charge administrative or clerical salaries not included in the approved budget.

The determining factors in classifying salaries of administrative and clerical staff as direct costs must relate to the exceptional nature of the project and the extent of administrative duties performed to carry out the project goals and objectives to those routinely performed for departmental administration or general institutional administration.

3.05 Other Administrative Costs Charged as Direct Costs

Uniform Guidance states that “items such as office supplies, postage, local telephone costs, and memberships shall **normally** be treated as indirect costs.” [Appendix A, §F.6.b.] Uniform Guidance does not absolutely prohibit such costs from being charged directly to a sponsored agreement if “they can be identified specifically with” the sponsored program or can be assigned to its activities “relatively easily and with a high degree of accuracy.” [Appendix A, §D.1.]

Costs of this kind may be charged directly to sponsored agreements, but only if the cost supports the activity that is **directly related to the special purpose or circumstance of the sponsored agreement**, and the link between the cost and the activity is close and clear. Assignment of such costs through a general departmental “surcharge” would not typically be close or clear enough to justify them as direct costs.

Allocation of a Direct Cost Across Two or More Sponsored Agreements

4.01 If a cost benefits two or more sponsored agreements in proportions that can be determined without undue effort or administrative expense, the cost should be allocated to the sponsored agreements based upon the proportional benefit. If a cost benefits two or more sponsored agreements in proportions that cannot be determined because of the interrelationship of the work involved, then. . . the costs may be allocated or transferred to benefited projects on any reasonable basis...” [Uniform Guidance].

4.02 Proportional Benefit Rule

- A. When the proportional benefit rule is used, the required close linkage of the cost with sponsored agreement activity, as described in 3.05 of this policy, continues to apply. The criteria for allocation of costs to two or more sponsored agreements are as follows:
1. The cost in question should be **identified specifically** with the group of sponsored agreements relatively easily and with a **high degree of accuracy**;
 2. **Credible documentation** of this identification must be maintained by the department; **and**
 3. Administrative costs cannot normally be charged to such groups of sponsored agreements unless the costs clearly meet the criteria for a “**special purpose or circumstance**” specified in 3.02, 3.04, and 3.05 of this policy.

B. Proportional Benefit for Compensation Costs (Salaries, Wages, and Benefits that Directly Benefit Two or More Sponsored Agreements)

The proportional benefit rule is applied when the principal investigator (P.I.) authorizes the distribution of salary and fringe benefits across two or more sponsored agreements. This authorization should reflect the P.I.'s best judgment of the proportional benefit of the salary and fringe benefit costs to each of the affected sponsored agreements.

The Monthly Time & Effort Payroll Confirmation and Bi-Weekly Payroll Confirmation reporting verify that the distribution of actual salaries and wages reflects the proportional distribution of compensation. Uniform Guidance requires confirmation of activity allocable to each sponsored agreement.

C. Proportional Benefit for Other Costs that Directly Benefit Two or More Sponsored Agreements

Conditions under which the proportional benefit rule can be used for other costs that directly benefit two or more sponsored agreements include the following:

1. cost in question qualifies as a direct cost under criteria defined in 3.01 and 3.02 of this policy;
2. cost pays for something that specifically benefits two or more sponsored agreements; **and**
3. without undue effort or administrative expense, a proportional distribution of the cost can be devised. For the sponsored agreements in question, this distribution must reflect, roughly but reasonably, the proportional distribution of the benefits for which the cost was paid. The P.I. must approve the use of proportional benefit and the method of its use.

Examples of acceptable methods are described below. Other methods may be acceptable, but should be discussed and approved with Grants and Contracts Financial Administration.

- Distribution of allowable direct costs used by two or more sponsored agreements, according to each grant's award percentage of the total awards of all sponsored agreements;
- Distribution of allowable direct costs used by two or more sponsored agreements, in proportions that reflect the P.I.'s best judgment of the proportions that will reflect the benefit of the cost to each of the sponsored agreements; or
- Distribution of administrative costs according to the methods described in a) or b) above. Administrative costs must meet a special purpose or circumstance as described in 3.01 and 3.02 of this policy.