

**PROCEDURE NUMBER:** FINA 3.40 Procedure

**SECTION:** Administration and Finance

**SUBJECT:** Sponsored Awards – Cost Principles

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**REVISION:**

**Procedure for:** All Campuses

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**Issued by:** Administration and Finance – Controller’s Office

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## Procedure Statement

The University Administration and Finance Division, Controller’s Office, will ensure compliance with University Policy FINA 3.40. This procedure is applicable to campuses, units, departments, centers, Principal Investigators (PIs), and administrators at the University who are involved with the initiation, administration, and conduct of sponsored awards. The purpose of this procedure is to supplement the associated policy by providing additional detail and guidance on cost principles.

### A. Cost Principles

For an expenditure to be represent an appropriate charge to a sponsored award, the charge must comply with certain cost principles. Each charge must be **allowable, reasonable, allocable, and consistently treated**. These cost principles apply not only to the sponsored funds, but also any related cost share or in-kind costs associated with the sponsored award.

#### **Allowable** ([2 CFR 200.403](#))

A cost is allowable if it is permitted as a cost within general federal and state regulations, the terms and conditions of a specific sponsored award, and the University’s policies, procedures, and negotiated indirect cost rate agreement.

Charging a cost because it was included in the budget approved by the sponsor does not necessarily make it allowable. Also, inclusion of an unallowable cost in a proposal does not make the cost allowable, nor does adding a justification to an unallowable cost in a proposal. Costs expressly unallowable or mutually agreed to be unallowable should be identified and excluded from any billing, claim, application, or proposal related to the sponsored award.

### **Reasonable** (2 CFR 200.404)

A cost is considered reasonable if the nature of the goods/services and the price paid for those goods/services reflects the action that a prudent person would have taken given the circumstances prevailing at the time the decision was made to incur the cost. The following questions should be considered when determining cost reasonableness:

- Is the cost necessary for the performance of the sponsored award?
- What stated goal or objective of the sponsored award does this cost support?
- Have individuals incurring this cost acted with due prudence in the circumstances?
- Is the price of the goods/services comparable to that charged by multiple vendors/sources that have no vested interest or relationship to the sponsored award or to the person involved in the purchase?
- Is the cost generally necessary for the University's operations or the grant's performance?
- Does incurring this cost violate the requirements or restraints imposed by federal and state laws and regulations, or sponsored award terms and conditions?
- Were the actions taken in respect to incurring the cost consistent with established University policies and practices applicable sponsored awards?

### **Allocable** (2 CFR 200.405)

A cost is allocable to a particular sponsored award if the goods/services involved can be directly charged or assigned to the award based on the benefit provided. The following questions should be considered when determining cost allocability:

- Does the cost benefit the sponsored award and/or other funding sources?
- Can the cost be distributed to all benefited funding sources using reasonable methods?
- Does the basis for allocating the cost represent a reasonable estimation of the benefits provided the sponsored award's states goals and objectives?

### **Consistently Treated** (2 CFR 200.419)

All costs incurred for the same purpose and in like circumstances must be treated uniformly either as direct or indirect costs – like expenses must be treated the same in like circumstances. Where the University treats a particular cost as a direct cost on sponsored awards, all costs incurred for the same purpose and in like circumstances must be treated as direct costs for all activities of the University. Consistent treatment of costs is necessary to avoid inappropriate changes to the federal government and other sponsors.

## **B. Unacceptable Direct Costing Practices**

The following direct costing practices do not meet Uniform Guidance's standard for a "high degree of scrutiny" in the assignment of costs to a sponsored award:

- Rotation of charges among sponsored awards without establishing the relative benefit to each sponsored award.
- Assigning charges to sponsored awards simply to spend the remaining balance with no benefit to the project.
- Charging the budgeted amount, in contrast to charging an amount based on actual usage.
- Assigned charges to a sponsored award in advance of the time the actual cost is incurred.
- Identifying a cost as something other than what it actually is (e.g., office supplies being recorded to the financial system using another account, such as lab supplies).
- Charging expenses exclusively to a particular sponsored award when the expense support more than one sponsored award or University activity.
- Assigning charges that are generally part of normal administrative support (indirect costs) for sponsored awards (e.g., administrative and clerical salaries, office supplies, phone charges, etc.).

### **C. Roles and Responsibilities**

The following roles and responsibilities should be adhered to:

#### PI and Departments

- Develop sponsored award proposals and budgets that comply with applicable requirements and cost principles.
- Monitor project activity and expenditures, ensuring appropriate financial management and cost allowability and compliance with sponsor terms and conditions.
- Maintain appropriate documentation to support sponsored award activities.

#### Controller's Office – Grants and Funds Management

- Track all expenditures associated with the sponsored award, ensuring compliance with applicable requirements and cost principles.
- Provide guidance to PIs and department regarding cost principles, as needed.

#### Office of Sponsored Awards Management

- Provide the PI with guidance on proposal preparation based on University and sponsor guidelines.
- Ensure compliance with applicable requirements and cost principles for award set up.

### **D. Resources and Forms**

Resources, trainings, and guides can be found on the Controller's Office website under the Grants and Funds Management and Resources and Training Toolbox sections.