

## Direct Charging of Expenditures to Sponsored Projects

### General Policy Statement

The spending of any funds awarded by the federal government to the University of Oklahoma (the “University”) is governed by 2 CFR 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (“Uniform Guidance”), published by the United States Office of Management and Budget (OMB). The Uniform Guidance describes the principles to be applied in establishing the allowability of certain costs related to federally and other externally sponsored programs at the University. These principles prohibit reimbursement from the federal government for certain unallowable costs. All charges must be necessary, reasonable, allocable, and allowable under the terms and conditions of the award. Costs incurred must be a direct benefit and easily identifiable to the project.

### Reason for Policy/Purpose

The University must comply with the federal regulations within the OMB Uniform Guidance governed by 2 CFR 200 Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. Compliance with this policy is necessary to ensure continued federal funding for sponsored programs and activities.

### Policy

Consistent with the OMB Uniform Guidance, 2 CFR 200, Subpart D – 200.300 Statutory and National Policy requirements and 200.309 Period of Performance, the University defines unallowable costs in the context of either a particular type of activity or a particular type of cost. Unallowable costs cannot be charged either directly or indirectly to the federal government.

### Unallowable Direct Costs

Costs incurred for the following types of activities are **unallowable**:

- alumni activities and relations
- commencement and convocation ceremonies
- contingency provisions (reserves)
- entertainment: amusement, diversion, and social activities and any costs directly associated with such costs such as tickets to shows or sports events, meals, lodging, rentals, transportation and gratuities
- fund raising
- goods and services for personal use such as automobiles
- investment management
- lobbying
- public relations unrelated to the performance of a sponsored award student activities: intramural activities, student publications, student clubs, and other student activities not specifically provided for in a sponsored award.

The following types of costs are **unallowable**:

- alcoholic beverages
- bad debt losses
- first class travel
- fines and penalties
- internal interest expense
- memberships in social, dining or country clubs
- The allowable compensation for certain employees working on federally funded research is subject to a federal ceiling. Salary charges above the federal salary ceiling are unallowable on federal awards.

The University may identify other award costs as **unallowable** based on consideration of:

- The sponsor's policies
- The award's terms and conditions
- University policies and procedures
- Facts and circumstances associated with a particular award.

### **Indirect Costs**

Indirect costs are general institutional expenditures that are incurred for common or joint objectives benefiting instruction, research, or public service and cannot be readily identified with a particular sponsored project.

#### **Examples of Indirect Costs**

The following types of costs are normally treated as indirect costs and may not be charged directly to federal or federal flow through sponsored projects.

- Administrative and Clerical Salaries
- General Office Supplies
- Communication Expenses
- Computing Devices
- Memberships
- Books/Periodicals
- General Purpose Software

Exceptions may be permitted during the proposal development in situations where the costs can be specifically identified and are for the sole benefit of the project. During the proposal development, a budget justification must be prepared if any of these types of expenditures are budgeted. The justification must explain the purpose of the costs in sufficient detail to enable interpretation by a reviewer or auditor. The justification must be included in the proposal narrative or as an attachment to a budget.

## **Basic Definitions of Cost Accounting Standards (CAS) for Educational Institutions**

### **§200.400- Policy Guide**

Fundamental Requirement – An institution’s practices used in estimating costs in pricing a proposal shall be consistent with the institution’s cost accounting practices used in accumulating and reporting costs. Cost accounting practices should be applied consistently so that comparable transactions are treated alike.

### **§200.401 – Application**

These principles must be used in determining the allowable costs of work performed by the non-Federal entity under Federal awards. These principles also must be used by the non-Federal entity as a guide in the pricing of fixed-price contracts and subcontracts where costs are used in determining the appropriate price.

### **§200.403 Factors Affecting Allowability of Costs**

Except where otherwise authorized by statute, costs must meet the following general criteria to be allowable under Federal awards:

- Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity.
- Be 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.
- Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- Not be 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 §200.306 Cost sharing or matching paragraph (b).
- Be adequately documented.

### **§200.404 Reasonable Costs**

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 was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally funded.

### **§200.405 – Allocable Costs**

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received.

### **§200.412 Classification of Costs**

There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect cost to avoid possible double charging of Federal awards.

## §200.413 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 costs. See also §200.405 Allocable costs. Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect costs of Federal awards.

### **Administrative and Clerical Salaries/Wages/Fringe Benefits:**

2 CFR 200.413(c) states that 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** the following conditions are met:

- Administrative or clerical services are integral to a project activity;
- Individuals involved can be specifically identified with the project or activity; and
- The costs are not also recovered as indirect costs.

### **Definitions:**

- Integral implies that the work required is significantly above the normal duties required of the administrative or clerical staff member. This would normally be expected to be 20% or greater of their effort.
- Routine implies that the work is normal day-to-day operations of the project.

### **Examples:**

#### **Integral:**

- Large, complex projects, such as research centers, project programs, and other grants and contracts that entail assembling and managing teams of investigators from several institutions.
- Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting.
- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
- A project whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports.)

**Routine** account monitoring, proposal processing, typing of general correspondence, manuscripts or technical reports, ordering of supplies, and limited meeting or travel arrangements are not included in the definition of direct charging and is covered by the University's indirect cost rate.

#### **General Office Supplies:**

- Office supplies that are used exclusively for project-specific activities may be direct charged when appropriately described in terms of their proposed use.
- Office supplies paid from a sponsored project must be consumed within the life of the project.

## **Communication Expenses:**

Costs are allowable only when they are directly attributable to a specific project (e.g., long-distance telephone charges). Cellular phone expenses may be directly charged when required for field site coordination or projects involving extensive travel. The budget justification must clearly explain how the requested costs meet these criteria.

Installation fees, routine monthly service charges, local access calls, and similar costs are considered indirect expenses and should not be charged directly to a sponsored account.

## **Computing Devices**

2 CFR §200.453 (c) states that in the case of computing devices, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated to the performance of a federal award.

The following criteria will be used to determine whether a device is essential and allocable:

- The need has been included in the original proposal and completely justified as to the reason it is being included in the project budget.
- It has been approved by the sponsor as part of the budget and award process.
- The device is necessary for the performance of the project.
- The project will be negatively impacted by not purchasing the computer or electronic device.
- The purchase must represent good stewardship of the sponsor's funds and the project's stated objectives.
- The costs are reasonable and directly benefit the project that purchases the equipment.

## **Memberships**

Non-transferable individual memberships to a professional organization are not allowed as a direct charge. Memberships must be institutional memberships and/or must be transferable if the member were to leave employment at OU. A transferable individual membership to a professional group may be allowed as a direct charge only if the following can be demonstrated:

- The membership creates cost-savings to attend a conference at which research results specific to the project will be presented, or membership is mandatory to present a paper specific to the project **or**
- The sole purpose of the membership is to purchase a periodical at a reduced rate, and the periodical is not available through the institution's library services, and the periodical is necessary for the sponsored project.

The budget narrative must indicate how the membership costs meet these requirements.

## **Books/Periodicals**

Books and periodicals are usually considered indirect costs and are therefore not allowed as direct costs. An exception may occur when the item is not available through the University's library services and is integral to the project.

**General Purpose Software:**

General-purpose office software (such as Word, Excel, Adobe, and similar site-licensed applications) is normally unallowable as a direct cost on a sponsored project.

Only special-purpose software—that is, software required specifically to carry out the project’s scientific or technical aims—may be charged directly. In those cases, the budget justification must clearly explain how the software will be used and demonstrate that the purchase solely and directly benefits the project.

**Enforcement:**

All costs payable or reimbursable under university policy must be charged to the appropriate account. For sponsored awards, it is the responsibility of the Principal Investigator or Project Director to ensure that costs are charged to the appropriate project. If unallowable costs are charged to a sponsored project, as determined by Grants and Contracts Accounting (GCA), those costs will be transferred to the home department of the Principal Investigator or Project Director.

**Procedures:**

The PI and the academic department in receipt of federal or other external awards are responsible for implementing the following procedures:

- Ensuring that unallowable expenditures are not charged to sponsored programs.
- If unallowable expenditures are errantly charged to the sponsored program, they are removed from the sponsored program in a timely manner.
- Unallowable expenditures must be moved to a non-sponsored account.
- If the unallowable expenditure is not removed in a timely manner, GCA will move the expenditure to the faculty member’s department account.