POLICY STATEMENT

Policy Title: Cost Principles

Effective: 7/1/2016 in accordance with Uniform Guidance regulations effective for new funding received after 12/26/2014
Supersedes: Direct Cost Policy dated 5/15/2003
Last Reviewed/Updated: 7/1/2016
Approved by: Laura Ragin, AVC and Controller, CU Boulder

Reason for Policy: To ensure consistent treatment of federally funded and non-federally funded sponsored project costs in compliance with the Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR, Chapter II, Part 200, Uniform Guidance).

I. INTRODUCTION

This policy statement has been updated to reflect the U.S. Office of Management and Budget’s Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR, Chapter II, Part 200, Uniform Guidance). According to the Uniform Guidance, Federal cost principles must be applied uniformly to all Federal awards and must be consistent with policies and procedures that apply to both Federal awards and other activities of the university, including non-Federally supported programs (2 CFR 200.403(c)).

In accepting a sponsored project, principal investigators, project directors, departmental administrators, and the University of Colorado Boulder (CU Boulder) agree to follow the cost principles defined by the sponsoring agency. Allowability of costs can vary by sponsor, therefore it is imperative that the sponsor requirements contained in each and every award agreement be understood and followed.

II. POLICY STATEMENT

Sponsored projects may be charged directly for costs that are allowable, reasonable, and allocable. Furthermore, all costs charged directly to a sponsored project are subject to audit by the respective funding agency or other audit agencies. This is true for both federally funded and non-Federally funded projects, in both like and unlike circumstances.

As stated in the Uniform Guidance (2 CFR 200.412) “There is no universal rule for classifying certain costs as either direct or indirect (F&A) 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 (F&A) cost in order to avoid possible double-charging of Federal awards.”

The primary responsibility for the sound fiscal management, as well as the programmatic direction, of a sponsored project belongs to the individual faculty member who is the grant or contract principal investigator. It is the responsibility of the principal investigator or project director to ensure that only allowable, reasonable, and allocable direct costs are charged to a sponsored project.
Uniform Guidance, 2 CFR 200.403(g) states that for an expense to be allowable on a Federal award, it must be adequately documented. Documentation for all project-related expenses, including cost sharing, must be maintained by the principal investigator’s department in accordance with CU Boulder’s Records Retention and Management policies. This would include, but not be limited to, receipts or copies of receipts, for all purchases, regardless of dollar amount. (Travel-related costs are governed by Internal Revenue Service Publication 463, requiring receipts only for expenditures ≥$75.) Please see Guidelines: Responsibility for Sponsored Projects Receipts and Supporting Documentation for adequate documentation for expenditures on sponsored projects. If the final determination is that any cost is unsubstantiated or disallowed, then reimbursement and any associated financial penalties will be borne by the department.

III. UNIFORM GUIDANCE DEFINITIONS RELATED TO COST PRINCIPLES

A. Allocable Costs (200.405)

A cost is allocable if the goods or services are charged to an award in proportion to the relative benefits received. The Uniform Guidance states the allocation standard is met if the cost:

1. Is incurred specifically for the award.
2. Is charged using direct cost allocation principles.
   a. When a cost benefits multiple projects or a combination of projects and programs, and the cost can be distributed in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects or programs based on the proportionate benefit.
   b. If the proportions cannot be easily determined, the cost may be allocable to the projects or programs receiving the benefit on any reasonable documented basis.
   c. Allocation across awards cannot be based simply on funding availability.

B. Allowable Costs (200.403)

The Uniform Guidance outlines the following general criteria that must be met for costs to be allowable:

1. Be necessary and reasonable for the performance of the award and be allocable to the award.
2. Conform to any limitations or exclusions set forth in the Uniform Guidance or the sponsor agreement.
3. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the institution.
4. 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 a Federal award as an indirect (F&A) cost.
5. Be determined in accordance with Generally Accepted Accounting Principles (GAAP).
6. Not be used to meet cost sharing requirements.
7. Be adequately documented.

CU Boulder’s position is to follow the most restrictive policy or guidance if a conflict exists.
C. Applicable Credits (200.406)
Applicable credits refer to those receipts or reduction-of-expenditure type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accrued to or received by the non-Federal entity relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

D. Direct Costs (200.413)
Direct costs are those costs that can be identified specifically with a particular final cost objective - such as a Federal award, or some 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.

E. Indirect Costs (200.56)
Costs incurred for a common or joint purpose benefiting more than one cost objective, not readily assignable to the cost objectives specifically benefited without effort disproportionate to the results achieved.

F. Limitation on allowance of costs (200.408)
Federal awards may be subject to statutory requirements that limit the allowability of costs. When the maximum amount allowable under a limitation is less than the total amount determined in accordance with the principles in this part, the amount not recoverable under a Federal award may not be charged to [that or any other] Federal award. For example, if an agency caps the amount of institutional base salary that can be used to calculate the costs of effort on a grant, individuals with a salary that exceeds the cap cannot charge the remainder of their salary from effort on that award to this or any other Federal award.

G. Reasonable Costs (200.404)
A cost is reasonable if, in 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 Uniform Guidance lists the following items to be taken into consideration in determining the reasonableness of a cost:

1. Whether the cost generally recognized as ordinary and necessary for the operation of the organization or the proper and efficient performance of the award
2. The requirements of sound business practices, arm’s length bargaining; applicable laws and regulations, and terms and conditions
3. Market prices for comparable goods or services for the geographic area
4. Whether the individual acted with prudence
5. Whether the institution significantly deviates from established policy and procedures, which may unjustifiably increase the award’s costs

H. Total Cost (200.402)
The total cost of a Federal award is the sum of the allowable direct and allocable indirect (F&A) costs, less any applicable credits.
IV. RELATED POLICIES, PROCEDURES, FORMS, GUIDELINES, AND OTHER RESOURCES

A. Administrative Policy Statements (APS) and Other Policies

Administrative Policy Statements are CU System Administration’s policies designed to implement the laws and policies created by the Board of Regents.

CU Boulder’s Disclosure Statement (DS-2) articulates what cost-types are typically charged to sponsored agreements and what cost-types are included in CU Boulder’s rates (F&A rates, benefit rates, etc.).

B. Cost Principles Procedural Statements

1. Administrative salaries
2. Computing devices
3. Conferences
4. Entertainment costs
5. Equipment
6. Like/Unlike
7. Memberships, subscriptions, and professional activity costs
8. Personnel recruitment costs
9. Research-related relocation costs
10. Research-related visa costs
11. Stipends
12. Travel

C. Guidelines

a) Direct Cost Application to Federal awards. Identification with the Federal award, rather than the nature of the goods and services involved, is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards (2 CFR 200.413(b)). Typical costs charged directly to a Federal award are the compensation of employees who work on that award, their related fringe benefit costs, and the costs of materials and other items of expense incurred for the Federal award. If directly related to a specific award, certain costs that otherwise would be treated as indirect (F&A) costs may also include extraordinary utility consumption, the cost of materials supplied from stock, or services rendered by specialized facilities, or other institutional service operations.

b) Non-Federal subcontractor indirect (F&A) costs. Any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in the Uniform Guidance Appendix VII to Part 200—States and Local Government and Indian Tribe Indirect Cost Proposals, paragraph D.1.b, may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC), or negotiate with CU Boulder directly for a different rate (2 CFR 200.414(f)).

c) Unacceptable direct charging practices:
   - Purchasing items only to spend out remaining funds
   - Rotating costs among projects based on budget availability and not based on allocation of use
• Charging the budget amount (in contrast to charging an amount based on actual costs/usage)
• Assigning charges to an award before the cost is incurred (except as an encumbrance)
• Charging an expense solely to an award when the expense has supported other activities/awards
• Applying a "departmental tax" to projects for clerical, secretarial, and administrative costs
• Creating recharge accounts, such as clerical and administrative/secretarial support pools, to circumvent direct-charging regulations.

d) Like and Unlike Circumstances (see Procedural Statement on Like and Unlike Circumstances for details)

• Like Circumstance: Costs are consistently applied when expenses incurred for the same purpose are treated in the same manner across campus. This is governed by Cost Accounting Standards (CAS) requirements which apply to all Federal awards and awards containing Federal flow-through funding.

• Unlike Circumstance: Apply to the following situations:
  o Federal projects where an activity, or use of a cost item, is substantively greater in amount, or different in purpose, than is typical;
  o Non-Federal awards funded with non-Federal dollars that limit the facilities and administrative rate; and
  o Awards received from for-profit entities, where F&A rates exceeding CU Boulder's federally approved rate, and faculty salary rates exceeding their institutional base salary, are allowable.

D. Other Resources
1. Other related procedural statements
2. Tools and factsheets
   a. Typically Allowable, Unallowable, IDC
   b. Meal Handout
   c. Department Responsibility for Receipts
3. Frequently asked questions database
4. COST SHARING - Policy
5. PARTICIPANT SUPPORT COSTS - Policy and Procedure
6. COST TRANSFER GUIDELINES - Graduate School Procedural Statement
7. Cost Transfer JE Guidelines
8. Forms
   a. Additional Pay
   b. Official Function

E. Frequently Asked Questions
   Question: What is required for a cost to be adequately documented?
**Answer:** Receipts or copies of receipts for all purchases (electronic copies are acceptable unless the sponsor has requirements for original receipts). Departments are responsible for ensuring receipts or copies of receipts are stored in accordance with CU Boulder records retention policies, generally with the department, in Concur, in CU Marketplace, or with another university-approved system. Receipts for purchases do not guarantee that the purchase will be considered allocable, allowable, and reasonable. Additional justification may be required if reasonableness is not self-evident.

**Question:** My institutional base salary is $140,000 over 9 months, which is higher than the current NIH limit ($138,825, as of January 2016). I have 10% academic year effort currently committed on my NIH grant, so NIH is only reimbursing the University for $13,883, rather than $14,000. Can I charge the remaining $117 to my NSF grant, since it doesn’t have a salary cap?

**Answer:** No, per the Uniform Guidance Limitation on Allowance of Costs, this would not be allowable. Since the 10% effort was entirely allocated to the NIH grant, it cannot also be charged to another sponsored project.

V. **HISTORY**
Direct Cost Policy dated 5/15/2003, which replaced the University of Colorado at Boulder 9/14/1999 Graduate School Policy Statement Direct Charging of Costs to Sponsored Programs