STANDARD OPERATING PROCEDURE

| Topic: | Select Items of Costs – Non-Personnel |
| Purpose: | Other Direct Common Costs - Allowable and Unallowable |
| Version: | 5 |
| Distribution: | |

Relevant ECU Policies: ORA Proposal Preparation, ORA Cost Principles, ORA Various Post-award Guidance, FS East Carolina University Basic Spending Guidelines by Fund Source

Relevant Federal Policies: 2 CFR 200, Sponsor Guidelines, Research Terms and Conditions

Overview

OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200) also known as Uniform Guidance (UG), requires that non-Federal entities assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal awards. Non-Federal entities have the duty to evaluate each project’s risk of noncompliance in order to determine the appropriate monitoring level, monitor the activities of sponsored projects to ensure that the project is in compliance with applicable Federal statutes and regulations and terms of the subaward, (§200.400 see Definition and Key Points below) All awards, federal and non-federal require ECU to use due diligence in ensuring that sponsored projects meet the legal, financial and performance obligations sponsored agreements.

Purpose

ECU is responsible for the performance and legal conduct of external parties engaged for the purpose of collaborating on, or providing services to, sponsored projects. This includes ensuring that costs, regardless of the primary source of funding, comply with applicable federal and state laws, and sponsor obligations. ECU is responsible for monitoring programmatic and financial activities, ensuring that the legal obligations of awards are met in accordance with the provisions of the prime sponsor.

The Office of Research Administration (ORA) is responsible for managing all research development activities – those that typically focus on proposal submission and financial
management of externally sponsored projects. This includes responsibilities for creating and maintaining internal control over compliance requirements for federal and non-federal awards, as well as, providing reasonable assurance on the efficacy of operations, reliability of reporting for both internal and external use, and compliance with laws and regulations. All university stakeholders, the PI, department, college, Hubs, ORA and other central offices, share responsibility for this effort. The purpose of this document is to provide guidance and resources to assist stakeholders with understanding categories of costs that may be included in the proposal and application for sponsored funding; and accounting treatment in the course of the project, based on classification. (§200.412 Classification of costs)

Definition and Key Points

Basic Principles

For the treatment of costs, whether budgeted for or incurred, on sponsored projects, the UG has four basic definitions (below) of being allowable, reasonable, allocable, and consistently treated. (§200.403 Factors affecting allowability of costs.)

1. Allowable
   a. Costs must comply with the terms and conditions of the agreement.
   b. Costs must be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
   c. Costs must be determined to be in accordance with generally accepted accounting principles (GAAP).
   d. Costs must be adequately documented.

2. Reasonable
   a. 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.

3. Allocable
   a. A cost is allocable if the goods or services involved are chargeable or assignable to in accordance with relative benefits received.

4. Consistent Treatment
   Costs may not be assigned or incurred as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated as an indirect cost.
Needed, Received and Used

In addition to the four principles above, costs incurred on sponsored projects must meet the requirements of being needed, received and used.

- Needed to meet project objectives
- Received and used during the project period

Costs that occur close to the end date of a sponsored project must meet these criteria.

The exception to this standard is for publications costs. Publication costs may be charged to awards before closeout for the costs of publication or sharing of research results if the costs are not incurred during the period of performance of the Federal award. These costs are allowed within the 90-day closeout period with agency approval.

Allowable and Unallowable Costs

Allowable costs must be classified consistently as direct or indirect costs. Direct costs are those that can be readily identified with a specific sponsored project(s). Indirect costs (F&A) are actual costs, for common or joint objectives of sponsored projects, such as libraries, utilities, building space and maintenance, and administrative support that cannot be readily associated a specific sponsored project.

Common Costs – Non-Personnel

Following is a list of common non-personnel costs which should be included in budget requests if applicable to the project and allowed in the application. Whenever costs meet institutional policy and the standards contained in UG §200.403 Factors affecting allowability of costs, subject to the limitations and restrictions set forth in the UG these costs may be budgeted in proposals. If directly related to a specific award, certain costs that otherwise would be treated as indirect costs such as extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be treated as direct costs. (see Restricted Costs below)

<table>
<thead>
<tr>
<th>Common Costs</th>
<th>UG§</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising and public relations.</td>
<td>200.421</td>
</tr>
<tr>
<td>Conferences</td>
<td>200.432</td>
</tr>
<tr>
<td>Contributions and donations. (applies to cost share and in-kind only) Cost sharing or matching</td>
<td>200.434</td>
</tr>
<tr>
<td></td>
<td>200.306</td>
</tr>
<tr>
<td></td>
<td>200.99</td>
</tr>
<tr>
<td>Equipment and other capital expenditures.</td>
<td>200.439</td>
</tr>
<tr>
<td>Basic Definition</td>
<td>200.33</td>
</tr>
<tr>
<td>General purpose equipment</td>
<td>200.48</td>
</tr>
<tr>
<td>Computing device</td>
<td>200.20</td>
</tr>
</tbody>
</table>
Information technology systems  
    Micro-purchase  
    Special purpose equipment  

Exchange rates.  

Maintenance and repair costs.  

Materials and supplies costs, including costs of computing devices.  
    Basic Definition  
    Computing Devices  

Memberships, subscriptions, and professional activity costs.  

Participant support costs.  
    Basic Definition  

Professional service costs. (including consultants)  

Publication and printing costs.  

Recruiting costs.  

Rental costs of real property and equipment.  

Scholarships and student aid costs. (Training Projects)  

Training and education costs. (employee development)  

Transportation costs. (for goods purchased)  

Travel costs. (domestic and foreign)  

In addition to observing institutional accounting and procurement practices, costs must meet the conditions of UG §200.404 Reasonable costs and UG §200.405 Allocable costs. For more information on factors, and prior approval requirements/exemptions, see Cost Principles (ECU.www.???)

If disapproval is not indicated in post-submission correspondence or in the sponsor’s award notice and associated correspondence, ECU will assume sponsor acceptance and approval of costs as proposed, including those that are subject to §200.407 Prior written approval, as long as those costs are fully disclosed in the proposal.

The PI is responsible for notifying ORA of any circumstances, institutional and sponsor, that affect or could potentially affect the performance or administration of the project - pre- and post- acceptance.

Restricted Costs

The UG restricts charging certain types of costs directly to sponsored projects unless there is a compelling reason and explicit justification. Cost principles require that costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) 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 (F&A) costs of sponsored projects.

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If directly related to a specific award, certain costs that otherwise would be treated as indirect costs including extraordinary utility consumption, the cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be treated as direct costs. The unique circumstances required for the differential treatment of costs must be specified in the proposal narrative and budget. Should circumstances change post-award, exceptions to charging indirect costs as direct costs require prior approval from ORA, via an Allowable Cost - Exception Request (see ORA Cost Principles).

Though not inclusive, below is a table of costs that may fall into this category:

<table>
<thead>
<tr>
<th>Restricted Costs</th>
<th>UG$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Staff Expenses</td>
<td>200.413</td>
</tr>
<tr>
<td>Memberships</td>
<td>200.413</td>
</tr>
<tr>
<td>Telephone</td>
<td>200.413</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>200.413</td>
</tr>
<tr>
<td>Postage Stamps</td>
<td>200.413</td>
</tr>
<tr>
<td>Equipment (e.g. freezer for samples, dedicated copier)</td>
<td>200.413</td>
</tr>
</tbody>
</table>

**Unallowable Costs**

Costs that are not allowable as either direct charges to federal sponsored agreements or indirect cost pools are called unallowable costs. Examples include institutional activities such as fund raising or student activities. Individual unallowable costs include fines, unlawful activities, etc.

Though not inclusive below is a list of common unallowable non-personnel costs.

<table>
<thead>
<tr>
<th>Unallowable Common Costs (Non-Personnel)</th>
<th>UG $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory councils. (unless authorized by statute)</td>
<td>200.422</td>
</tr>
<tr>
<td>Alcoholic beverages.</td>
<td>200.423</td>
</tr>
<tr>
<td>Alumni/ae activities.</td>
<td>200.424</td>
</tr>
<tr>
<td>Bad debts.</td>
<td>200.426</td>
</tr>
<tr>
<td>Commencement and convocation costs.</td>
<td>200.429</td>
</tr>
<tr>
<td>Entertainment costs.</td>
<td>200.438</td>
</tr>
<tr>
<td>Fines, penalties, damages and other settlements.</td>
<td>200.441</td>
</tr>
<tr>
<td>Goods or services for personal use.</td>
<td>200.445</td>
</tr>
<tr>
<td>Losses on other awards or contracts.</td>
<td>200.451</td>
</tr>
<tr>
<td>Proposal costs.</td>
<td>200.460</td>
</tr>
<tr>
<td>Rearrangement and reconversion costs.</td>
<td>200.462</td>
</tr>
<tr>
<td>Student activity costs. (intramural activities, student publications, student clubs, other)</td>
<td>200.469</td>
</tr>
</tbody>
</table>
ORA will request that unallowable costs included in proposals are removed prior to application. ORA will notify the PI of unallowable charges to sponsored project funds. The PI is responsible for moving the costs to an appropriate fund in a timely manner. See Overrun Policy, and Cost Transfer Policy (ECU.www.???)

Key Terms from Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200)

§200.403 Factors affecting allowability of costs.

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

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.

(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.

(c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.

(d) 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.

(e) 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.

(f) 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).

(g) Be adequately documented. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

§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. In determining reasonableness of a given cost, consideration must be given to:

(a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.

(b) The restraints or requirements imposed by such factors as: sound business practices; arm’s-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.

(c) Market prices for comparable goods or services for the geographic area.

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

§200.405 Allocable costs.
(a) 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. This standard is met if the cost:
   (1) Is incurred specifically for the Federal award;
   (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
   (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.
(b) All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
(c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.
(d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also §§200.310 Insurance coverage through 200.316 Property trust relationship and 200.439 Equipment and other capital expenditures.
(e) If the contract is subject to CAS, costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.
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Policy: Compliance Monitoring Officer  
Proposal Submission: Pre-Award Services  
Subaward Negotiation: Contract Officer  
Financial and Subaward Administration: Post-Award Services