STANDARD OPERATING PROCEDURE

Topic: Cost Overruns
Purpose: Define and Discuss Cost Overrun Policy and Procedure
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Relevant ECU Policies: ORA Proposal Preparation, ORA Select Items of Costs – Allowable and Unallowable, ORA Principle / Project Director (PI/PD) Guidance, Cost Transfer Policy, 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 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.

This policy establishes procedures for managing cost overruns on sponsored agreements. A cost overrun occurs when total costs exceed the costs allowed by the sponsored agreement, either in total or within a budget category (line-item).

The policy applies only to true deficits, not bookkeeping or accounting errors. The guidance and applicable procedures in this policy follow both Generally Accepted Accounting Principles (GAAP) and the UG. If the sponsored agreement is less restrictive than university policy, university policy and procedure will take precedence. The procedures herein apply to all sponsored agreements, (federal and non-federal, and associated subrecipient and institutional commitments.

Definition and Key Points

Definition
A cost overrun, also known as a cost increase, or budget deficit, involves unexpected costs incurred in excess of budgeted amounts due to an underestimation of the actual cost during budgeting. Cost overruns should be distinguished from cost escalations, which is an anticipated growth in a budgeted costs due to factors such as inflation.

Cost overruns may affect the University’s cashflow, reducing liquidity and potentially investible assets.

Types of Cost Overruns
1. Total costs exceed the total authorized amount of the sponsored agreement.

2. Budget category costs exceed the category budget allowed by the sponsored agreement.

3. There is a breach of contract either by the University or the sponsor which requires negotiation to determine appropriate costs.
Institutional - Stakeholder Roles and Responsibilities

Cost overruns must be addressed in a timely manner and corrected within 90 calendar-days of the month-end closing in which the deficit occurred; and within 30 days of the termination date of the project if it is expiring.

Deficit balances require a cost transfer(s) to move the costs to an unrestricted fund(s). Cost transfers of deficit balances are disallowances and are not transferrable to other sponsored agreements. All cost transfers to correct cost overruns require ORA approval and must be properly identified and documented.

If a deficit is not corrected within the 90 calendar-day period, ORA will take corrective action. Costs will be transferred to the appropriate Sponsored Projects Clearing Account (SPCA) assigned by college. ORA will then notify both the PI/PD and the ADR of transfer. The PI/PD has 30 calendar-days from the month-end close in which to prepare a cost transfer request to transfer the costs from the SPCA. If the appropriate action has not been taken, ORA will work with the ADR directly.

Costs incurred in anticipation of sponsored funding are not allowed on current funds, unless the existing agreement contains a provision for subsequent funding, and only with prior approval from ORA. (see Multiple Year Agreements and Letter of Guarantee) Prior approval must be requested within 10 days of the termination date of the existing agreement. ORA will determine if a new fund is required or if the current fund is appropriate. In any event, costs that create a deficit on an existing agreement prior to the effective date of subsequent funding will be disallowed. Costs that are not allowable under the current or subsequent agreement(s) require a budget revision.

During the course of the sponsored project, budget revisions may be necessary to fulfill the terms and conditions of the award. Budget revisions require prior approval by ORA via a Budget Revision Form. The Budget Revision Form must be completed prior to incurring costs that are outside of the scope of the approved budget. This is especially important when prior approval from the sponsor is required. For instance, in the case of a change of scope or reduction in PI/PD effort. Deficits for which ORA approval has not been requested or received require resolution within 30 calendar days following the month-end of the date that the deficit occurred.

ORA has oversight for externally funded projects and is responsible for ensuring compliance with University policy and sponsor guidelines in association with the relevant factors governing allowability of costs as outlined in the Key Terms section below. ORA will advise the PI/PD in the appropriate course of action. If the corrective action does not occur in a timely manner, ORA has the authority to, and will take corrective action as necessary. Should the sponsor
withhold approval for the revision ORA will follow the same steps outlined above resolve the deficit(s).

**PIs, Departments, Colleges and Hubs**

1. **Project Administration**
   1.1. Monitor project performance to progress and ability to meet the objectives of the agreement throughout the period of performance.
   1.2. Assume responsibility for the financial administration of all sponsored and cost share funds to ensure spending is accurate and is within the terms and conditions of the award.
   1.3. Notify ORA of any legal, financial or programmatic concerns with funding during the period of performance. ORA will review the matter and assist as needed.

Office of Research Administration (formerly Office of Sponsored Programs and Office of Grants and Contracts)

1. **Proposal**
   1.1. Provide assistance to PI and staff for the substance of the written commitments that will be required for the proposal.
   1.2. Assist PI obtain written commitments from internal parties.

2. **Award Administration**
   2.1. Review the budget and all terms and conditions of the award including costs, sponsored and cost share, that could potentially be considered as cost transfers. Notify internal parties of the requirements for monitoring and documenting such costs, and assist them with a systematic approach to managing such costs.
   2.2. Monitor spending of all sponsored and cost share funds to ensure spending is accurate and is within the terms and conditions of the award.
   2.3. Provide guidance for the PI/PD and internal parties throughout the life of the sponsored project to ensure legal and financial concerns are managed in a timely manner.
   2.4. Review, approve and document all cost transfers related to sponsored projects, following audit and retention standards.
   2.5. Request corrective action and/or modification of cost transfers in the event of non-compliance.
   2.6. Manage disallowances as necessary.
   2.7. Assist PI and staff with close-out reports, record retention audit.

3. **Compliance Officer**
   3.1. Monitor cost transfers for all projects.
   3.2. Work with GCMs and GCAs as necessary.
   3.3. Provide reports to upper level administration.
   3.4. Work with ORA Education Coordinator to provide training for university personnel.
   3.5. Manage internal and external audits.
Office of the Vice Chancellor for Research

1. Review and approve exceptions to policy and projects that may involve excessive or unusual cost share plans or sponsor requirements, at the proposal stage and, as necessary, during the life of the award.

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

§200.68 Modified Total Direct Cost (MTDC).
MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of $25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs, and with the approval of the cognizant agency for indirect costs.

§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.

Point of Contact
Office of Research Administration (ORA)
East Carolina University
2200 South Charles Boulevard
Suite 2900
Greenville, NC 27858
ora@ecu.edu

Policy: Compliance Monitoring Officer
Proposal Submission: Pre-Award Services
Subaward Negotiation: Contract Officer
Financial and Subaward Administration: Post-Award Services