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.

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 over the course of the project, based on classification. (§200.412 Classification of costs)

The purpose of this SOP is to identify and discuss Federal cost principles:

1. For the classification of costs as either direct or indirect (facilities and administrative - F&A)

2. For determining the allowability of costs budgeted for, and expensed on sponsored projects
   and
   For determining when prior written approval is required for Federal projects

While the practices of non-federal agencies may vary from those of federal agencies, the cost principles discussed in this SOP apply to all costs on sponsored projects. This includes federal and non-federal projects, any associated match – cost sharing and in-kind, institutional and third-party, and program income.

Exemptions to these cost principles (cost classification and allowability) are not uncommon when working with non-federal agencies. As shown in Figure 1 Hierarchy of Terms, sponsor practices - terms and conditions - at the application stage and award acceptance will determine the administration of the project. Also, as shown in the Hierarchy, University and State policies; and Public Law take precedence. In all circumstances, University policy is the starting point to determine the methodology used for budgeting, incurring, accruing costs, accounting and reporting all costs for sponsored projects.
The concepts discussed in this SOP are from the UG, Subpart E, Cost Principles §§200.400 - 200.475. For this discussion, the term “costs” refers to all costs associated with sponsored projects, whether budgeted or expensed.

Definition and Key Points

Classification
Costs are classified as either direct costs or indirect costs to the sponsored project. As discussed in §200.412 Classification of costs:

_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._

Figure 1 Hierarchy of Terms
Direct costs are those costs that can be identified specifically with a particular cost objective such as a sponsored project, or other internally or externally funded activities. (§200.413) The term cost objective means the purpose for which costs are measured. Other activities include university-funded research, instructional activities such as departmental research and other institutional activities where costs can be directly assigned easily with a high degree of accuracy.

Indirect costs are those costs incurred for common or joint objectives, that cannot be readily and specifically identified with a particular cost objective. Indirect costs are classified under two broad categories “Facilities” and “Administration.” (F&A) “Facilities” is defined as depreciation on buildings, equipment and capital improvement, interest on debt associated with certain buildings, equipment and capital improvements, and operations and maintenance expenses. “Administration” is defined as general administration and general expenses such as the director’s office, accounting, personnel and all other types of expenditures not listed specifically under one of the subcategories of “Facilities” (including cross allocations from other pools, where applicable). (§200.414)

Accounting Treatment of Cost Objectives - Direct and Indirect (F&A)
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 are facilities and administration costs (F&A) of the institution.

F&A costs 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. Recovery of these costs is essential because these are real costs built into ECU’s budget and as such represent taxpayer support of the institution.

These costs are recovered by applying the appropriate F&A rate to appropriate direct costs of sponsored projects. The appropriate direct base consists of all direct costs less exclusions as specified in UG §200.68. The F&A rate agreement, known as the Colleges and Universities Rate Agreement is negotiated and mutually agreed upon with the U.S. Department of Health and Human Services, ECU’s cognizant audit agency. ECU’s rate agreement is located at F&A Rate Agreement. For a complete discussion of how the ECU’s rate is developed, applied, recovered and redistributed in support of the university, see ECU. www.???

UG §200.420 Considerations for selected items of cost, provides principles to be applied in establishing the allowability of certain items involved in determining cost, in addition to the requirements Basic Considerations for classification and allowability. These principles apply whether an item of cost is properly treated as direct cost or indirect (F&A) cost. Determination as to allowability in each case should be based on the treatment provided for similar or related items of cost and based on the principles described in §200.402 Composition of costs through §200.411.
The proper classification of costs is reinforced by the Cost Accounting Standards Board, Cost Accounting Standards (CAS), under CAS 502 (48 CFR 9905.502-40) which states:

All costs incurred for the same purpose, in like circumstances, are either direct costs only or indirect costs only with respect to final cost objectives. No final cost objective shall have allocated to it as an indirect cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included as a direct cost of that or any other final cost objective. Further, no final cost objective shall have allocated to it as a direct cost any cost, if other costs incurred for the same purpose, in like circumstances, have been included in any indirect cost pool to be allocated to that or any other final cost objective.

At times, costs that would normally be considered as indirect costs, may qualify as direct costs to a sponsored project. To qualify as direct costs, the institution must demonstrate that those costs are necessary for the performance of the project and will be/have been incurred in circumstances that are unlike the circumstances in which they normally will be/have been incurred. An unlike circumstance is defined as an activity or use that is substantively greater in amount or different in purpose than is typical. For an indirect cost to be considered as a direct cost, it must meet the following requirements:

(1) There must be an extraordinary need beyond what is normally provided by the institution;
(2) the cost can be identified to the technical scope of work;
(3) it is allocable - the relative benefits justify the cost; and
(4) the cost must be approved by institutional officials, and the sponsor.

When it is determined that costs will be incurred in unlike circumstances, prior approval and written justification for direct costing is required. This begins with the proposal. 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. Approved exception forms, and appropriate documentation will be retained by ORA for audit purposes. If the charges are disallowed in an audit, the PI will be responsible for the charges.

Allowability of Costs
§200.403, Factors affecting allowability of costs states:

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.

Costs attributed to sponsored projects must meet the basic tests as outlined in the Factors as well as those established in §200.404 Reasonable and in §200.405 Allocable, which state:

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. (§200.404)

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. (§200.405 - refer to specifics to determine if standard has been met).

In addition, to the Factors above, the Federal cost principles require prior written approval from sponsoring agencies for specific elements of cost. (§200.407)

Research Terms and Conditions – Prior Approval (Agency Specific)
Relevant to the matter of cost principles is the requirement for prior written approval for specific selected items of cost defined in the UG. As part of the RTC six federal agencies developed
Research Terms and Conditions Appendix A, Prior Approval Matrix, which indicates each agency’s position on the need for prior written approval for each selected item of cost.

The RTC, Research Terms and Conditions, is an initiative to address and implement the UG to create greater consistency in the administration of Federal research awards by Federal agencies, created by the Research Business Models (RBM) Interagency Work Group. Six federal agencies currently involved in this initiative are: NSF, DOE, NIH, USDA/NIFA, DOC and NASA. NSF serves as the sponsor of the updated version of all RTC documents.

A copy of the current RTC Prior Approval Matrix, dated December 10, 2018 (Figure 2) is located on ECU’s website.

<table>
<thead>
<tr>
<th>Prior Written Approval (prior approval)*</th>
<th>Reference</th>
<th>Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts</th>
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<tbody>
<tr>
<td>200.407(a)</td>
<td>200.407(a)</td>
<td>Changes in principal investigator (PI), project leader, project partner, or scope of effort.</td>
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<tr>
<td>200.407(b)</td>
<td>200.407(b)</td>
<td>Use of unencumbered indirect costs, including indirect costs on cost sharing or matching.</td>
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<tr>
<td>200.306(c)(iv)</td>
<td>Waived</td>
<td>Use of current fair market value to determine the value of non-Federal entity donations of services and property for the purposes of cost sharing or matching.</td>
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<tr>
<td>200.306(d)(2)</td>
<td>Waived</td>
<td>Costs of the fair market value of equipment or other capital assets and fair rental charges for land when the Federal award supports activities that require use of equipment, buildings or land.</td>
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<tr>
<td>200.306(h)(2)</td>
<td>Waived</td>
<td>Use of program income during the period of performance (additive method).</td>
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<th>Revision of budget and program plans</th>
<th>200.407(d)</th>
<th>Use of program income during the period of performance (additive method).</th>
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<td>200.306(h)(3)</td>
<td>Waived</td>
<td>Use of program income during the period of performance (additive method).</td>
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<th>Changes in the approved cost-sharing or matching provided by the non-Federal entity.</th>
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<td>Subawarding, transferring or contracting out any work under a Federal award. This provision does not apply to the acquisition of supplies, materials, equipment or other general purpose services.</td>
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<td>Changes in the approved cost-sharing or matching provided by the non-Federal entity.</td>
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<tr>
<td>Need for additional Federal funding to complete the project.</td>
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<tr>
<td>Incur project costs 90 calendar days before the Federal awarding agency makes the award.</td>
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<tr>
<td>Incur project costs more than 90 calendar days pre-award.</td>
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<td>Initiate a one-time extension of the period of performance by up to 12 months.</td>
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<th>§200.68 Modified Total Direct Cost (MTDC).</th>
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<td>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</td>
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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.

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