

**PROCEDURE NUMBER:** FINA 3.40 Procedure

**SECTION:** Administration and Finance

**SUBJECT:** Cost Accounting Standards – Cost Principles

**DATE:** November 1, 2024

**REVISION:** May 1, 2025

**Procedure for:** All Campuses

**Authorized by:** Mandy Kibler

**Issued by:** Administration and Finance – Controller’s Office

---

## **Procedure Statement**

The University Administration and Finance Division, Controller’s Office, will ensure compliance with University Policy FINA 3.40. This procedure is applicable to campuses, units, departments, centers, Principal Investigators (PIs), and administrators at the University who are involved with the initiation, administration, and conduct of sponsored awards. The purpose of this procedure is to supplement the associated policy by providing additional detail and guidance on cost principles.

### **A. Cost Principles**

For an expenditure to be represent an appropriate charge to a sponsored award, the charge must comply with certain cost principles. Each charge must be **allowable, reasonable, allocable, and consistently treated**. These cost principles apply not only to the sponsored funds, but also any related cost share or in-kind costs associated with the sponsored award. Direct costs must be clearly identified with a particular sponsored project and adequately documented, otherwise the cost must be charged as indirect costs. Costs incurred for the same purpose in similar circumstances cannot be charged both directly and indirectly.

#### **Allowable (2 CFR 200.403)**

A cost is allowable if it is permitted as a cost within general federal and state regulations, the terms and conditions of a specific sponsored award, and the University’s policies, procedures, and negotiated indirect cost rate agreement.

Charging a cost because it was included in the budget approved by the sponsor does not necessarily make it allowable. Also, inclusion of an unallowable cost in a proposal does not

make the cost allowable, nor does adding a justification to an unallowable cost in a proposal. Costs expressly unallowable or mutually agreed to be unallowable should be identified and excluded from any billing, claim, application, or proposal related to the sponsored award.

**Reasonable** (2 CFR 200.404)

A cost is considered reasonable if the nature of the goods/services and the price paid for those goods/services reflects the action that a prudent person would have taken given the circumstances prevailing at the time the decision was made to incur the cost. The following questions should be considered when determining cost reasonableness:

- Is the cost necessary for the performance of the sponsored award?
- What stated goal or objective of the sponsored award does this cost support?
- Have individuals incurring this cost acted with due prudence in the circumstances?
- Is the price of the goods/services comparable to that charged by multiple vendors/sources that have no vested interest or relationship to the sponsored award or to the person involved in the purchase?
- Is the cost generally necessary for the University's operations or the grant's performance?
- Does incurring this cost violate the requirements or restraints imposed by federal and state laws and regulations, or sponsored award terms and conditions?
- Were the actions taken in respect to incurring the cost consistent with established University policies and practices applicable sponsored awards?

**Allocable** (2 CFR 200.405)

A cost is allocable to a particular sponsored award if the goods/services involved can be directly charged or assigned to the award based on the benefit provided. The following questions should be considered when determining cost allocability:

- Does the cost benefit the sponsored award and/or other funding sources?
- Can the cost be distributed to all benefited funding sources using reasonable methods?
- Does the basis for allocating the cost represent a reasonable estimation of the benefits provided the sponsored award's states goals and objectives?

**Consistently Treated** (2 CFR 200.419)

All costs incurred for the same purpose and in like circumstances must be treated uniformly either as direct or indirect costs – like expenses must be treated the same in like circumstances. Where the University treats a particular cost as a direct cost on sponsored awards, all costs incurred for the same purpose and in like circumstances must be treated as direct costs for all activities of the University. Consistent treatment of costs is necessary to avoid inappropriate changes to the federal government and other sponsors.

## B. Unacceptable Direct Costing Practices

The following direct costing practices do not meet Uniform Guidance’s standard for a “high degree of scrutiny” in the assignment of costs to a sponsored award:

- Rotation of charges among sponsored awards without establishing the relative benefit to each sponsored award.
- Assigning charges to sponsored awards simply to spend the remaining balance with no benefit to the project.
- Charging the budgeted amount, in contrast to charging an amount based on actual usage.
- Assigned charges to a sponsored award in advance of the time the actual cost is incurred.
- Identifying a cost as something other than what it actually is (e.g., office supplies being recorded to the financial system using another account, such as lab supplies).
- Charging expenses exclusively to a particular sponsored award when the expense support more than one sponsored award or University activity.
- Assigning charges that are generally part of normal administrative support (indirect costs) for sponsored awards (e.g., administrative and clerical salaries, office supplies, phone charges, etc.).

## C. Select Direct Costs

Whenever non-salary administrative costs are to be charged to a sponsored award, they must be explicitly justified and explained in the sponsored award and budget proposal to clearly tie the costs to the project’s objectives. The costs must serve the sole benefit of the project, which creates a special or unique need for the item that is clearly different from normal circumstance. See examples below.

- **Personnel:** Salaries/wages for individuals assigned to work on the sponsored award (faculty, postdoctoral scholars, graduate assistants, technical and administrative staff). Administrative staff who work for the organization as a whole and are not directly associated with the project should be allocated as indirect rather than direct. See **FINA 3.00 Procedure – Personnel Costs** for additional detail.
- **Fringe Benefits:** Benefits assigned to individuals who work specifically on the sponsored award. They include the employer's share of an employee's eligible fringe benefits (e.g., health insurance, medical leave, retirement plans, worker’s compensation, etc).
- **Equipment:** Purchases of tangible personal property with an acquisition cost of \$10,000 or more to be used by program personnel during the course of the project.
- **Materials & Supplies:** Expendable items to be used by program personnel during the project course that are not defined as equipment (per above).
- **Travel:** Includes airfare, lodging, per diem expenses, etc. for project-specific travel. Expenses must be budgeted, have a direct relation to the project, adhere to sponsor and University requirements, and receive appropriate pre-approvals.

- **Participant Support:** Stipends, subsistence allowances, travel allowances, and/or registration fees paid to (or on behalf of) participants or trainees (but not employees) in connection with meetings, conferences, symposia, or training for sponsored awards with education or outreach components.
- **Consultants and Subawards:** Services performed by a contractor or subrecipient who is not affiliated with or part of the organization.
- **Other Direct Costs:** Other costs not included in the categories above.

See the [Direct Cost Resource](#) for additional guidance, which is considered part of this procedure.

#### D. Non-Personnel Administrative Costs

Whenever non-salary administrative costs are to be charged to a sponsored award, they must be explicitly justified and explained in the sponsored award and budget proposal to clearly tie the costs to the project's objectives. The costs must serve the sole benefit of the project, which creates a special or unique need for the item that is clearly different from normal circumstance. See examples below.

- **General Office Supplies and Equipment:** Direct charges must be essential to the project's performance, be solely consumed within the project period, and be justified and documented in the budget narrative.
- **Postage Expenses:** Typically allowable as direct charges for shipping research materials, required non-routine deliverables, or large-scale mailings directly tied to the project scope (e.g., surveys).
- **Telephone and Communication Expenses:** Typically allowable as direct charges if associated with a dedicated line for research use, long-distance or communication charges directly tied to project objects, or cellphones used for extensive travel or field coordination.
- **Computing Devices (e.g., laptops):** May be directly charged if it can be clearly demonstrated that they are essential to fulfill project objectives, even if not used exclusively. Allowable per [2 CFR 200.453](#) if budgeted and justified in the proposal, necessary for project performance, not solely dedicated to the award but allocable, and represent good stewardship and benefit to the project.
- **Memberships:** May be directly charged only if the individual membership allows access to project-critical materials unavailable through the library or creates a cost-saving for attending or presenting at a required event. Memberships must be transferrable or institutional and justified in the proposal and cannot include fees for lobbying activities.
- **Subscriptions, Books, Periodicals:** May be directly charged only if the resource is unavailable through institutional libraries and is integral and specific to the project.

- **Leases:** May be directly charged if the rented space can be easily identified with the project through a reasonable allocation methodology. Rental of general office space would typically be considered an indirect cost.
- **Utilities:** May be directly charged if a large piece of equipment or dedicated space requires significant utilities that are separately metered. Shared utilities would typically be considered an indirect cost.
- **General Purpose Software:** Special-purpose software may be directly charged if it is essential to project performance and justified as solely benefiting the project. Office-use software, such as Word and Excel, is unallowable as a direct cost.

## E. Examples of Unallowable Costs

The following non-inclusive list details unallowable costs, according to Uniform Guidance. Individual sponsor and program requirements may detail other unallowable costs.

- Advertising for general promotion of the University, including printed materials, promotional items, memorabilia, gifts, and souvenirs
- Advertising for recruitment purposes that includes color or is excessive in size
- Alcoholic beverages
- Alumni or fundraising activities
- Antiques
- Bad debt write-offs
- Charitable Contributions
- Commencement expenses
- Decorative objects for private offices
- Entertainment
- Fine/original art
- Fines and penalties
- First-class/business-class air travel differentials
- Flowers
- Gifts, prizes, and awards
- Goods or services for personal use
- Lobbying
- Memberships in airline travel clubs
- Memberships in civic, social, community organizations or country clubs
- Faculty and exempt staff salary in excess of base rates paid by the institution.

- Selling or marketing products or services of the University.
- Social events

**F. Roles and Responsibilities**

The following roles and responsibilities should be adhered to:

PI and Departments

- Develop sponsored award proposals and budgets that comply with applicable requirements and cost principles.
- Monitor project activity and expenditures, ensuring appropriate financial management and cost allowability and compliance with sponsor terms and conditions.
- Maintain appropriate documentation to support sponsored award activities.

Controller’s Office – Grants and Funds Management

- Track all expenditures associated with the sponsored award, ensuring compliance with applicable requirements and cost principles.
- Provide guidance to PIs and department regarding cost principles, as needed.

Office of Sponsored Awards Management

- Provide the PI with guidance on proposal preparation based on University and sponsor guidelines.
- Ensure compliance with applicable requirements and cost principles for award set up.

**G. Resources and Forms**

Resources, trainings, and guides can be found on the Controller’s Office website under the Grants and Funds Management and Resources and Training Toolbox sections.

**History of Revisions:**

<b>DATE OF REVISION</b>	<b>REASON FOR REVISION</b>
November 1, 2024	New Procedure
May 1, 2025	Added Direct Cost Categories, Non-Personnel Admin Costs, and Unallowable Costs sections
July 1, 2025	Added History of Revisions section