

Florida Atlantic University Allowability of Costs on Federal Awards

II. Definitions:

- A. Allocable: the expense is necessary for the accomplishment of the objectives of the program or project. In other words, the expense benefits the project. Allocability is one of the basic criteria for the allowability of costs on Federal awards, as discussed in Section V of this document.

- B. Allowable: the expense can be charged to a sponsored project as a direct cost or indirect cost according to OMB Circular A-21 (for Federal and Federal Flow Through awards), the award Terms and Conditions, and FAU's guidelines. Section V of this document discusses the basic criteria of the allowability of costs on Federal awards.

- C. Consistent Treatment of Costs: the principle that each type of cost is allocated only once and on only one basis to a Federal award. In other words, FAU must treat all costs consistently as either direct costs or indirect costs. Adherence to this cost accounting principle is necessary to prevent charging a Federal sponsor more than once for a particular cost (double counting). Consistent treatment of costs is one of the basic criteria for the allowability of costs on Federal awards, as discuss in Section V of this document.

- D. CAS 502 Exception Form: an internal document used at FAU when a proposed project includes a direct expense item that is typically treated as indirect costs. When administrative and clerical salaries meet the criteria for a "Major Project" or when other Non-Labor Administrative Costs meet the criteria for "special circumstances", this form is completed and submitted by the PI to Sponsored Programs for their approval to treat these expense items as direct costs for the project.
The expense items included on this form must also be explicitly stated in the proposal budget that is submitted to the Federal sponsor. See Exhibit D for a copy of the CAS 502 Exception Form and Instructions.

- E. Cost Accounting Practices: guidelines to be followed to provide consistency in the following:
 - a. how costs are measured.
 - b. how costs are assigned.
 - c. how costs are allocated to sponsored projects, either as a direct cost or indirect cost.

- F. Cost Accounting Standards: When OMB revised Circular A-21 on May 8, 1996, four of the Cost Account Standards became applicable to colleges and

universities that receive grants and cooperative agreements from the Federal government. These four standards are designed to achieve uniformity and consistency in cost accounting practices. The four Cost Accounting Standards are delineated in OMB Circular A-21, which can be found at <http://www.whitehouse.gov/omb/circulars/a021/a021.html>. Exhibit IV. of this document provides more information on the Cost Accounting Standards.

- G. Cost Accounting Standards Board: The part of the Executive Branch of OMB that has the exclusive authority to make, promulgate, and amend cost accounting standards and interpretations designed to achieve uniformity and consistency in the cost accounting practices governing the measurement, assignment, and allocation of costs to contracts with the United States. For more information, go to <http://www.whitehouse.gov/omb/procurement/casb.html>.
- H. Direct Cost: a cost that can be identified specifically with a particular sponsored project relatively easily and with a high degree of accuracy. Direct costs are essential for the accomplishment of the project's objectives. Examples of direct costs include salaries, fringe benefits, travel, supplies, equipment, tuition, and subcontracts.

Identification with the sponsored project, rather than the nature of the goods and services involved is the determining factor in distinguishing direct costs from F&A costs. In order to charge an expense item as a direct cost to a sponsored project there must be a clear and close relationship between the goods and services being purchased and the scientific/technical objectives of the project.

- I. Double Counting: charging a Federal sponsor twice for one cost. Double counting occurs most commonly when a cost item is allocated directly to a sponsored project without eliminating the cost item from the indirect cost pools used to calculate the F&A cost rate. The purpose of Cost Accounting Standard 502 is to prevent double counting.
- J. Expressly Unallowable: a particular expense item or type of cost which, under the express provisions of OMB Circular A-21 and the Terms and Conditions of the sponsored agreement, is explicitly named and stated to be unallowable. See the Allowability Grid in Exhibit H for unallowable costs on Federal awards. If the Terms and Conditions of the award include additional limitations on the allowability of costs, then the Terms and Conditions must be adhered to in addition to OMB Circular A-21.
- K. FAU Project Account: an account established to record the revenues, expenditures, and encumbrances of a project or program funded by an external sponsor. Sponsored funding comes to FAU typically in the form of a contract, grant, or cooperative agreement.

L. Facilities and Administrative (F&A) Costs: costs that are incurred for common or joint objectives and therefore cannot be readily and specifically identified with a particular sponsored project. F&A costs, previously known as indirect costs or overhead, are those costs associated with maintaining the infrastructure of the University. F&A costs include the following items:

1. Facilities Costs

- a. Operations and Maintenance Expenses
 - i. Facilities Planning and Management
 - ii. Environmental Health and Safety
 - iii. Janitorial and Utility Services
- b. Library Expense
 - i. Books and library materials
 - ii. A portion of Library Operating Costs are allocated to instruction, research and other institutional activities
- c. Depreciation and Use Allowances
- d. Interest (debt associated with certain buildings and capital improvements)

2. Administrative Costs

- a. General Administration
 - i. President's Office
 - ii. University Budget Office
 - iii. Personnel Services
 - iv. Office of the General Counsel
 - v. Controller's Office
 - vi. Information Resource Management
- b. Departmental Administration
 - i. Academic Deans' Offices (administrative functions only)
 - ii. Academic Department Administration
- c. Sponsored Programs Administration
 - i. Vice President for Research
 - ii. Sponsored Programs
 - iii. Research Accounting
 - iv. Technology Transfer
- d. Student Administration and Services
 - i. Dean of Students
 - ii. Admissions
 - iii. Registrars

M. Major Project: As defined by OMB Circular A-21, Section F 6 b (2), a project or activity that requires an extensive amount of administrative and clerical support, which is significantly greater than the routine level of such services provided by academic departments. Major projects are those that are administratively intensive and are not necessarily defined by the amount of funding.

Administrative and clerical salaries are typically not allowable as direct expenses on Federal awards because these items are treated as indirect expenses, specifically part of department administrative costs. To allow these types of expenses to be charged as a direct expense on a Federal award would, in effect, charge the Federal sponsor twice: once as a direct expenses and then again in the F&A rate charged on the award. There are certain circumstances when it is allowable to charge these types of personnel costs to Federal awards and Exhibit C. of OMB Circular A-21 lists the situations in detail. (See Exhibit E of this document.) The examples given in this document are not meant to be exhaustive. They are “special circumstances” that allow for these expenses to be treated in a manner that is not consistent with the typical way the University treats these expenses. In order for these administrative and clerical expenses to be charged directly to the Federal award, a Major Project must exist and the costs must:

1. fit the definition of a direct cost
 - a. specifically identifiable with the objectives of the project or the Scope of Work.
 - b. the identification is made with relative ease and a high degree of accuracy.
2. be included in the proposal budget and budget justification.
3. be approved by Sponsored Programs at the time of proposal, as documented by the “CAS 502 Exception Form”.
4. be included in the proposal budget that was approved by the Federal sponsor and not expressly disapproved by the Federal sponsor. For proposals that prohibit a line item detailed budget, such as NIH Modular Applications, this criterion is waived.
5. be reasonable for the project, as discussed in Section V of this document.
6. be allocable to the project, as discussed in Section V of this document.
7. If a need for administrative and clerical salaries is realized during the project, the PI may request approval from Sponsored Programs using the CAS 502 Exception Form. Sponsored Programs will determine if it is necessary to obtain prior written approval from the Federal sponsor.

N. Office of Management and Budget (OMB): the federal agency that establishes government-wide grants management policies and guidelines through circulars. For more information, go to <http://www.whitehouse.gov/omb/>.

- O. OMB Circular A-21: “*Cost Principles for Educational Institutions*” provides guidelines on the allowability of costs for federal awards received by universities. Section J. of this document lists fifty cost items and states whether they are allowable or unallowable on Federal awards. OMB Circular A-21 also includes the Cost Accounting Standards that are applicable to educational institutions. A complete copy of this document can be obtained at <http://www.whitehouse.gov/OMB/circulars/a021/a021.html>.
- P. OMB Circular A-110: “*Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*” sets forth standards for obtaining consistency and uniformity among Federal agencies in the administration of grants to and agreements with institutions of higher education, hospitals, and other non-profit organizations. A complete copy of this document is available at <http://www.whitehouse.gov/OMB/circulars/a110/a110.html>.

Subpart C of this document discusses Post Award Requirements, such as the following:

1. Standards for Financial Management Systems
2. Payment Methods
3. Cost Sharing or Matching
4. Program Income
5. Revision of Budget and Program Plans

- Q. Non-Labor Administrative Costs: The following expense items that are typically treated as indirect costs on Federal awards:

1. Postage
2. Office Supplies
3. Local Telephone Costs
4. Memberships/Subscriptions
5. General Purpose Equipment
6. General Purpose Software

When the project has “special circumstances”, these expense items may be charged as direct costs to a Federal award, using a CAS 502 Exception Form.

- R. Pre Award Routing Sheet: An internal document that accompanies a proposal. Principal Investigators are required to complete the Pre Award Routing Sheet and submit it to Sponsored Programs along with the complete proposal. Section V. of the Pre Award Routing Sheet includes the proposal budget. A copy of a Pre Award Routing Sheet and Instructions is attached. (See Exhibit A.) An electronic copy of this document is available at www.fau.edu/dsr under “Electronic Forms”.

- S. Reasonable: a prudent person would consider the expense to be reasonable for the project, under the circumstances and at the time the expense was incurred. Reasonableness is one of the basic criteria of the allowability of costs on Federal awards, as discussed in Section V of this document.
- T. Special Circumstances: A situation where an expenditure which is normally considered to be an F&A cost meets the criteria to be charged as a direct cost on a Federal award. These costs must:
2. fit the definition of a direct cost
 - a. specifically identifiable with the objectives of the project or the Scope of Work.
 - b. the identification is made with relative ease and a high degree of accuracy.
 3. be used for a purpose other than the normal University operations and require support which is greater than the routine costs that an academic department typically provides.
 4. be included in the proposal budget.
 5. be approved by Sponsored Programs, documented by the CAS 502 Exception Form.
 6. be approved by the Federal sponsor and not expressly disapproved by the Federal sponsor. For proposals where a detailed line item budget is prohibited, such as the NIH Modular Application, this criterion is waived.
 7. If the need for the cost is realized during the life of the project, the PI may request approval from Sponsored Programs for the expense item to be charged to the project as a direct cost using the CAS 502 Exception Form. Sponsored Programs will determine if it is necessary to obtain prior written approval from the Federal sponsor.

See Exhibit F of this document for examples of Special Circumstances for Non-Labor Administrative Costs on Federal awards.

- U. Sponsored Agreement: a grant, contract, cooperative agreement, subcontract or purchase order from an external funding source for a specific program or project at FAU. Sponsored agreements can be further classified as follows:
- 41 Federal Flow Through
 - 42 Federal
 - 43 State
 - 44 Non Federal

The term “sponsored agreement” and “award” are synonymous.

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- V. Unallowable Expense: Any cost which, under the provisions of OMB Circular A-21, the Terms and Conditions of the award, or FAU’s guidelines, cannot be included in proposals, cost reimbursements (invoices or drawdowns), financial

reports, or indirect cost pools used to calculate the F&A cost rate. Unallowable costs consist of expressly unallowable costs and unallowable directly associated costs. Unallowable directly associated costs are incidental of the expressly unallowable costs and would not be incurred if the expressly unallowable costs were not incurred.

Expenses which are unallowable for federal reimbursement may still be reasonable and necessary business expenses permitted by the University. These costs must simply be coded as unallowable so that they can be readily identified and are not allocated to a Federal award, either as a direct cost or as an indirect cost.