

University of California, Berkeley
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**Supersedes: Cost Principles for Contracts
and Grants, Sponsored Awards**



Cost Principles for Sponsored Agreements (Contracts and Grants)

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Policy Statement

All funds must be spent in accordance with University policy, applicable state and federal law, and sponsor terms and conditions. Principal Investigators (PIs) are responsible for the management and administration of their awards including all expenditures of project funds. This campus policy is primarily determined by cost principles contained in Office of Management and Budget (OMB) Circular A-21.

Only allowable, allocable, and reasonable technical and administrative costs may be charged directly to sponsored agreements. Direct costs must be given consistent treatment. Consistent treatment occurs when, in like circumstances, an institution always treats an expense as either a direct or an indirect cost.

For federally sponsored projects, including federal flow-through awards or other awards covered by OMB Circular A-21, administrative costs are normally included as indirect costs, but *may* be charged directly to a sponsored project under certain circumstances. Awards not covered by OMB Circular A-21 may have administrative costs directly charged to them provided they are allowable, allocable, and reasonable, are accounted for properly, and are not specifically prohibited by the award terms and conditions or other campus policy.

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Cost Principles for Sponsored Agreements (Contracts and Grants)

Who Is Affected by This Policy

- Administrative Officials: department chairs, principal investigators, vice chancellors, deans, directors, and managers
- Budget and Accounting Officers
- Departmental Administrators
- Anyone who initiates or approves expenses against sponsored agreements

Who Administers This Policy

- The Chancellor
- Vice Chancellors and Deans
- Controller's Office
- Sponsored Projects Office
- Industry Alliances Office
- Extramural Funds Accounting Office
- Principal Investigators
- Departmental Administrators

Why We Have This Policy

The University receives a substantial portion of its funding in the form of contracts, grants and other agreements with the federal government. As a condition of receiving this funding, the University agrees to follow federal policies, including Office of Management and Budget (OMB) Circular A-21 (*Principles for Determining Costs Applicable to Grants, Contracts and Other Agreements with Educational Institutions*). The Circular provides definitions and examples of direct, indirect, allowable, and unallowable costs as well as acceptable conditions for applying costs to sponsored projects and programs.

Congress has become concerned with the way colleges and universities charge costs to federally funded projects. To address these concerns, OMB made several revisions to Circular A-21, including the addition of Cost Accounting Standards (CAS). The CAS regulations require that:

- i) Practices used to estimate costs in proposals must be consistent with the practices used in accumulating and reporting those costs;
- ii) Costs are to be treated consistently as either direct costs or indirect costs.

UC Berkeley must comply with the following CAS requirements, which are an integral part of A-21:

- CAS 501: Consistency in Estimating, Accumulating and Reporting Costs
- CAS 502: Consistency in Allocating Costs Incurred for the Same Purpose
- CAS 505: Accounting for Unallowable Costs
- CAS 506: Cost Accounting Periods

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Cost Principles for Sponsored Agreements (Contracts and Grants)

Responsibilities

Controller's Office:

- Provides guidance on policy interpretation and implementation.
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Extramural Funds Accounting:

- Monitors costs charged to sponsored awards for compliance with sponsor and University policy.
- Provides guidance on policy interpretation and implementation.
- Provides ongoing training opportunities for faculty and staff.
- Monitors costs charged to sponsored awards for consistent treatment.
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Sponsored Projects & Industry Alliances Offices:

- Review proposal budgets for justification of costs.
- Provide guidance on policy interpretation and implementation.
- Monitor costs in proposal budgets for consistent treatment.
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Financial and Management Analysis:

- Provides advice and guidance regarding A-21 allowability.
- Keeps current on federal costing policy and communicates changes to campus.
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Principal Investigators:

- Assure that costs in proposal budgets are appropriate for the scope of work and are justified.
- Review costs charged to sponsored awards for compliance with sponsor and University policy.
- Determine the appropriateness of and provide justification for rebudgeting actions.
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Departmental Business Office (in consultation with Principal Investigators):

- Reviews proposals for appropriateness of costs.
- Reviews costs charged to sponsored awards for compliance with sponsor and University policy.
- Assures that internal supporting documentation to relate expenditures to the purpose of the award is accessible.
- Assures that internal records for rebudgeting actions are accessible.

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Cost Principles for Sponsored Agreements (Contracts and Grants)

Procedures

Summary

- I. DETERMINATION OF ALLOWABLE, ALLOCABLE, AND REASONABLE DIRECT COSTS FOR SPONSORED AGREEMENTS
 - a. STEP 1: Is the Direct Cost Allowable, Allocable, and Reasonable?
 - b. STEP 2: Determination of the Nature of the Direct Cost: Technical or Administrative?
 - c. STEP 3: Determination of Allowable Administrative Direct Costs to Federally Sponsored Projects
 - d. STEP 4: Determination of Allowable Administrative Direct Costs to Non-Federally Sponsored Projects
 - II. REBUDGETING OF AWARDS FOR DIRECT ADMINISTRATIVE COSTS
 - III. DISTRIBUTION OF ALLOWABLE DIRECT COSTS BETWEEN TWO OR MORE ACTIVITIES
 - IV. DOCUMENTATION REQUIREMENTS FOR DIRECT CHARGES TO ALL SPONSORED AGREEMENTS
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I. DETERMINATION OF ALLOWABLE, ALLOCABLE, AND REASONABLE DIRECT COSTS FOR SPONSORED AGREEMENTS

As a recipient of federal awards, the University is obligated to comply with numerous federal rules and regulations. The PI, with the assistance of department and central campus staff, must propose, charge, and document all direct charges to sponsored awards. The flow chart in the Appendix, along with the following narrative, provides a framework for determining whether various costs qualify as direct charges to sponsored awards.

STEP 1: Is the Direct Cost Allowable, Allocable, and Reasonable?

Only allowable, allocable, and reasonable technical and administrative costs may be charged to sponsored agreements. To determine whether a particular cost is allowable, allocable, and reasonable, apply the “prudent person” test. If the answer to any of the following questions is “no” then the cost probably should **not** be charged to the project:

- i) Is the cost generally accepted as necessary for the performance of the technical scope of the project or similar projects?
- ii) Does the cost have an “arms-length” relationship between the investigator and merchants or subcontractors? (For example, goods and services should not be purchased from a friend or relative.)

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Cost Principles for Sponsored Agreements (Contracts and Grants)

- iii) Would you be comfortable explaining to someone outside the University why you charged this item to your project?
- iv) Is charging this cost consistent with UC Berkeley's policies, procedures, and practices?

For direct charges to sponsored awards it is the *purpose* of the charge, not necessarily the type of charge, that determines its allowability. Costs that do not meet these tests may need to be charged to non-sponsored funds.

STEP 2: Determination of the Nature of the Direct Cost: Technical or Administrative?

Technical costs are those that provide direct benefit to a sponsored project's scientific or technical scope of work. Some examples of common technical direct costs are the salaries, wages, and benefits of faculty, research staff, pre- and postdoctoral students, technicians, and laboratory assistants needed to perform the technical scope of the award. Technical costs shall be charged directly to all sponsored projects whenever they can be specifically identified to a particular sponsored project and provide technical benefits as described in the project's scope of work.

Administrative expenses are the salaries, wages, and benefits of those employees who perform non-technical support activities, plus supplies and other expenses used to provide clerical or administrative project support. Administrative costs are normally classified as indirect costs, but *may* be charged directly to sponsored projects under certain circumstances. Some examples of common administrative costs are salaries, wages, and benefits of clerical and administrative staff, stationery supplies, routine copying, postage, basic local telephone services, and general purpose equipment such as computers, typewriters, and printers.

All technical costs are allowable unless specifically disallowed. All administrative charges are unallowable unless specifically allowed.

Note: When costs that are normally administrative (e.g., office supplies, postage, local telephone calls) are planned and used for a project's *technical* scope of work, they qualify as technical costs and can be charged directly to sponsored awards provided they also meet the other criteria (allocable, specifically identified to and benefit the project, explicitly included and justified in the budget, not specifically disapproved by the sponsor).

Technical and administrative costs must be given *consistent treatment*. Consistent treatment means an institution always treats an expense the same way (as a direct or indirect cost) under the same circumstances.

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Cost Principles for Sponsored Agreements (Contracts and Grants)

STEP 3: Determination of Allowable Administrative Direct Costs to Federally Sponsored Projects

For federally sponsored or federal flow-through awards, OMB Circular A-21 requires that administrative expenses normally be treated as indirect costs. However, they may be charged directly to federally sponsored agreements when *all* of the following criteria are met:

- i) The administrative expense is for the performance of tasks that are *significantly greater than the routine level* of such services normally provided by administering departments or Organized Research Units, *and* are in support of major activities or projects such as those described in the Office of Management and Budget (OMB) Circular A-21.

Examples of major projects include:

- Large, complex programs that entail assembling and managing teams of investigators from a number of institutions. For this policy, UC-managed national laboratories and other UC campuses are considered separate institutions from UC Berkeley.
- Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, literature searches, and reporting, such as epidemiological studies, clinical trials, and retrospective clinical records studies.
- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
- Projects whose principal focus is the preparation and production of manuals and large reports, books, and monographs (excluding routine progress and technical reports).
- Projects that are geographically inaccessible to normal departmental administrative services, such as seagoing research vessels, radio astronomy projects, and other research field sites remote from the campus.
- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols, Institutional Review Board (IRB) preparations and/or other project-specific regulatory protocols; and multiple project-related investigator coordination and communications.

These examples are not exhaustive, nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate in these cases. When charging administrative and clerical salaries as direct costs, the PI must make a determination that the project meets the characteristics of a “major project” as described by OBM Circular A-21 and assure that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities. *For more information, see Frequently Asked Questions (FAQs):*

<http://extramuralfundsaccounting.berkeley.edu/FAQ/FAQcostPrinciples.pdf>

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Cost Principles for Sponsored Agreements (Contracts and Grants)

- ii) The administrative expense can be identified specifically with a particular sponsored project or activity, or can be directly assigned to the project with relative ease and with a high degree of accuracy and provide direct benefits to the project.
- iii) The administrative expense is explicitly listed in the approved proposal budget, is not specifically disapproved in the award notice, *and* is explicitly justified in the proposal budget.
 - For awards that do not require line-item budgets (NIH modular awards, for example), specific justification must be included in the budget narrative identifying the project as major as determined by the PI and in accordance with OMB Circular A-21.
 - Rebudgeting authority may be used to charge administrative expenses not included in the approved budget only if the clerical and administrative expenses to be charged are documented as meeting the criteria outlined in this document and are consistent with sponsor rebudgeting guidelines.

STEP 4: Determination of Allowable Administrative Direct Costs to Non-Federally Sponsored Projects

Direct charges for technical and administrative costs to awards *not* covered by Office of Management and Budget (OMB) Circular A-21 can be made without additional documentation provided they are allowable, allocable, and reasonable, are accounted for properly, and are not specifically prohibited by the award terms and conditions or campus policy.

II. REBUDGETING OF AWARDS FOR DIRECT ADMINISTRATIVE COSTS

Direct charging of administrative costs should be justified in the proposal submitted to and approved by the sponsoring agency. If the PI does not include direct charges of administrative costs in the proposal, the PI may rebudget to include clerical and administrative salaries and other costs normally considered indirect only if all of the tests of allowability are met and the sponsor's terms and conditions for rebudgeting are followed. Where sponsor prior approval is required to rebudget, the PI must seek formal sponsor approval by submitting a written request to the Sponsored Projects Office (SPO) for institutional countersignature. Where sponsor prior approval is not required to rebudget, the PI must prepare a written justification to be placed in the award files maintained by the administering unit and forward a copy to Extramural Funds Accounting (EFA). Authority to rebudget alone does not qualify an expense for direct charging. *The cost must still meet all other tests of allowability.*

III. DISTRIBUTION OF ALLOWABLE DIRECT COSTS BETWEEN TWO OR MORE ACTIVITIES

On occasion, an item of cost may benefit more than one project or activity. Allocating costs between projects or activities requires a reasonable and documented methodology. For example, a cost can be distributed to projects or activities using a common characteristic such as head count, square feet, or other criterion that reflects the benefits received by each project. Or, based on actual usage, a cost can be distributed by means of a log sheet. For all methods, the

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Cost Principles for Sponsored Agreements (Contracts and Grants)

criterion used for redistribution must be consistently applied to all benefiting projects or activities regardless of the project's or activity's available funding. Documentation for any redistribution methodology is maintained in departmental files and must be accessible.

IV. DOCUMENTATION REQUIREMENTS FOR DIRECT CHARGES TO ALL SPONSORED AGREEMENTS

PIs are responsible for the management and administration of their contracts and grants. They must abide by all applicable federal and state laws, University policies, and sponsor terms and conditions. PIs must assure the appropriateness of all expenditures of project funds. PIs or their departmental business officers must assure that adequate supporting documentation relating expenditures to the purpose of the award is accessible. Some examples of supporting documentation are:

- a. Approved budget & budget justification
- b. Effort reports
- c. Timesheets and job cards
- d. Reallocation methodology
- e. Rebudgeting documentation

All supporting documentation must meet the University's documentation requirements.

Web Site Address for This Policy

<http://campuspol.chance.berkeley.edu/policies/directcharges.pdf>

Glossary

Administrative costs are the salaries, wages, and benefits of those employees who perform non-technical support activities, plus the supplies and other expenses used to provide clerical or administrative project support.

Allocable costs are those that provide direct benefits to the project and can be specifically identified to a project or activity with a high degree of accuracy. A cost is allocable to a sponsored agreement if it advances the work sponsored under the agreement; if it benefits the sponsored agreement in proportion to the charge; and if it is necessary to the overall operation.

Allowable costs are directly related to the sponsored agreement, must benefit the sponsored agreement in the proportion to the amount charged, and must conform to the policies and procedures of the institution. The cost must be necessary for the performance of the project. A particular cost may be allowable on one project, where it is needed for performance, but be unallowable on another project where no similar performance requirement exists. Although

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Cost Principles for Sponsored Agreements (Contracts and Grants)

OMB Circular A-21 may not list a particular type of cost as unallowable, if it does not meet the further tests of allowability described in the procedures section above, it will be deemed unallowable.

Consistent treatment occurs when a cost incurred for the same purpose in like circumstances is treated consistently as either a direct or an indirect cost.

Direct costs are costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

Facilities and Administrative (a.k.a. F&A, overhead or indirect) costs are those costs incurred for common or joint objectives and which therefore cannot be identified readily and specifically with a particular sponsored project, instructional activity, or other institutional activity. Common campus indirect costs include depreciation of buildings, central campus administration and expenses, sponsored projects (SPO) administration expenses, operation and maintenance of plant expenses, University Library expenses, departmental administration expenses, and campus student administration and services.

Federal sponsors are agencies whose funding comes from the federal government, including state agencies that use federal money to fund state projects. Examples of federal sponsors include the National Institutes of Health, the National Science Foundation, the Department of Education, the Department of Defense, and NASA.

Federal Flow-Through Funds are funds that originate from the federal government, but whose granting entity is not necessarily the federal government. CalTrans, which can use federal funds to sponsor state agreements, is an example of a federal flow through entity. Recipients of non-federal awards should always check the award document to determine whether federal flow through dollars fund the award.

Indirect costs –see *Facilities and Administrative Costs*

Major project or activity is a project or activity that requires an extensive amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by administering departments or ORUs.

Overhead costs—see *Facilities and Administrative Costs*

Reasonable costs reflect the actions a prudent person would take under the circumstances prevailing at the time the decision was made to incur the costs. Reasonable costs are those that are generally recognized as necessary for the operation of the sponsored agreement, have an arm's length relationship between the vendor and the PI/institution, and are consistent with sponsor and University policy.

Supporting documents relate expenditures to the purpose of the award. Examples include financial journals, invoices, payroll records, effort reports or rebudgeting documents. Documents are considered accessible if they can be made available upon request. This does not

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Cost Principles for Sponsored Agreements (Contracts and Grants)

mean that a paper copy of every financial transaction must be retained in a departmental file; only that if requested, support for a questioned cost can be reproduced.

Technical costs are those that can be specifically identified and provide direct benefit to a sponsored project's scientific or technical scope of work.

Unallowable costs are those explicitly identified in OMB Circular A-21 as unallowable, or those that do not meet the conditions for allowability. Examples of unallowable costs are often identified in the financial system through an account code.

Related Documents

Office of Management and Budget Circular A-21,
http://www.whitehouse.gov/omb/circulars/a021/a21_2004.html.

University of California Contract and Grant Manual, <http://www.ucop.edu/raohome/cgmanual/>.

University of California Business and Finance Bulletin A-47, "University Direct Costing Procedures," <http://www.ucop.edu/ucophome/policies/bfb/a47.html>.

University of California, Berkeley Responsibilities Guide,
<http://controller.berkeley.edu/ResponsibilitiesGuide/>.

UNIVERSITY OF CALIFORNIA, BERKELEY
Policy on Cost Principles for Sponsored Agreements (Contracts and Grants)

Appendix

