Cost Principles Directives & Procedures

1. Background
   1.1. Definitions ....................................................................................................................... 2

2. Guiding Principles to Determine the Charge of a Cost to a Sponsored Agreement .......... 3
   2.1. Reasonable ..................................................................................................................... 3
   2.2. Allocable ......................................................................................................................... 3
   2.3. Allowable ........................................................................................................................ 3
   2.4. Consistent Treatment ...................................................................................................... 3

3. Unlike Circumstances Guiding Principles .............................................................................. 4

4. Expenses that May Not be Direct Charged ............................................................................ 4
   4.1. Personnel ....................................................................................................................... 4
   4.2. Operating Expenditures .................................................................................................. 4

5. Practices for Direct Charging ................................................................................................. 5
   5.1. Personnel Costs ............................................................................................................. 5
   5.2. Miscellaneous Supply and Related Costs ....................................................................... 6

6. Direct-Charging Practices that are NOT Acceptable to Federal Agencies ......................... 7

7. Requesting Cost Accounting Standards Exemptions ............................................................... 7

8. Grant Budgets, Rebudgeting, Cost Transfers, and Effort Reporting ..................................... 8
   8.1. Budgets .......................................................................................................................... 8
   8.2. Rebudgeting ................................................................................................................... 8
   8.3. Cost Transfers ................................................................................................................ 8
   8.4. Effort Reporting............................................................................................................... 8

9. Responsibility for Compliance ................................................................................................ 8
   9.1. Cost Analysis .................................................................................................................. 8
   9.2. Division Of Sponsored Programs .................................................................................. 8
   9.3. College/Department/Division ....................................................................................... 9
   9.4. Principal Investigator ................................................................................................... 9
1. Background
As a recipient of federal awards, the University of Florida is obligated to comply with rules and regulations promulgated by federal agencies. Those agencies include the Office of Management and Budget (OMB) which sets forth broad principles governing sponsored project administration, as well as individual Sponsors such as the Public Health Service (PHS) and the National Science Foundation (NSF), which put forth agency-specific regulations for administering sponsored awards.

1.1. Definitions

1.1.1. Account - A chartfield in the Chart of Accounts that categorizes the nature of the transaction as a specific type of revenue, expense, asset or liability.

1.1.1.1. Operating Expenditures - Expenditures incurred in the normal course of business such as for Payroll Services, Contractual Services, Supplies, and Materials.

1.1.1.2. Non-Operating Expenditures – Expenditures that are not incurred in the normal course of business, such as gains and losses on interest expense, transfers between cost centers at the University, or settlement payments relating to disputes.

1.1.2. Direct Costs: Those 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. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. Where an institution treats a particular type of cost as a direct cost of sponsored agreements, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all other activities of the institution.

1.1.3. Documentation: Providing a detailed explanation and support documents as evidence to substantiate allocability, allowability, and reasonableness for a specific transaction.

1.1.4. Facilities and Administrative (F&A) Costs: See Indirect Costs.

1.1.5. Federal Sponsored Agreement: Any grant, contract, or cooperative agreement received directly by The University of Florida as well as subawards received by the University under federal awards to other organizations.

1.1.6. General Purpose Equipment: Equipment that is not limited to research, medical, scientific, or other technical activities. Examples include office equipment and furnishings, telephone networks, information technology equipment and systems, air conditioning equipment, reproduction and printing equipment, and motor vehicles.

1.1.7. Indirect Costs: Those that are incurred for common or joint objectives [of the University] and, therefore, cannot be identified readily and specifically with a particular sponsored project, instructional activity or any other institutional activity. A number of components comprise these costs, which are categorized as “facilities and administration.” “Facilities” includes “depreciation and use allowances, interest on debt associated with certain buildings, equipment and capital improvements, operation and maintenance expenses, and library expenses.” “Administration” is defined as “general administration and general expenses, departmental administration, sponsored projects administration, student administration and services, and all other types of expenditures not listed specifically under facilities.”

1.1.8. Major Project: A project or activity that requires an extensive amount of administrative and clerical support that is significantly greater than the routine level of such services provided by
academic departments. Major projects are administratively intensive and are not necessarily defined by the amount of funding.

1.1.9. **Proportional Benefit Rule:** Under some circumstances, a direct expense may benefit two or more sponsored agreements or activities. When the cost's proportional benefit towards each sponsored agreement and/or activity can be determined without undue effort or cost, then the cost should be allocated based on the proportional benefit.

1.1.10. **Reasonable Cost:** A cost is reasonable when (1) it is necessary for the performance of the sponsored project or for University operations; (2) when a prudent person would purchase the item at that price given the circumstances; and (3) when the incurrence of the cost is consistent with established UF policies and practices.

1.1.11. **Unlike Circumstance:** An activity or use of a cost item which is substantially greater in amount or different in purpose than the normal use of that cost item. See Number 3 for further guidance.

2. **Guiding Principles to Determine the Charge of a Cost to a Sponsored Agreement**

Four guiding principles or criteria from federal OMB Circulars shall be used to determine whether a cost can be charged to a sponsored agreement. These criteria apply for both direct and indirect (Facilities & Administrative) costs, which are defined above. For a given cost to be charged to a sponsored agreement, all four (4) of these criteria must be met.

2.1 **Reasonable** – For a cost to be considered reasonable, it must be:
- Recognized as necessary for the operation of the institution or the performance of the sponsored agreement,
- Consistent with the requirements imposed by arms-length bargaining, federal or state laws and regulations, and ethical business practices, and
- Related to an action and/or in an amount deemed within the norms of business conduct (i.e., passes the "prudent person" test).

2.2 **Allocable** – For a cost to be considered allocable, it must:
- Be incurred solely to advance the work under a sponsored agreement, or
- Benefit both the sponsored agreement and other work of the institution, in proportions that can be approximated through the use of reasonable methods, and
- Be assignable to the benefiting activities without undue effort or cost.

2.3 **Allowable** – For a cost to be considered allowable, it must:
- Not be designated as "unallowable" under federal OMB Circulars,
- Adhere to sponsor-specific policies and award-specific terms and conditions regarding specific items of cost, and
- Adhere to University policies regarding specific items of cost.

2.4 **Consistent in Treatment** – Consistent treatment of costs is a basic cost accounting principle and is specifically required by federal OMB Circulars to assure that the same types of costs are not charged to federally sponsored agreements both as direct costs and as indirect costs. Consistency in this context means that costs incurred for the same purpose, in like circumstances, must be treated uniformly as either direct costs or as indirect costs. Thus, since certain types of costs, such as the salaries of administrative and clerical staff, office supplies, and postage are normally treated as indirect costs, the same types of costs cannot be charged directly to federally sponsored agreements, unless the circumstances related to a particular project are clearly different from the normal operations of the institution.
3. Unlike Circumstances Guiding Principles

In order to direct charge a cost on a federal sponsored agreement that would ordinarily be charged as an indirect cost, the following requirements must be met:

- The sponsored agreement has an extraordinary need for the item or service that is beyond the level of services normally provided by departmental administration,
- The cost can be specifically identified to the work conducted under the sponsored agreement and is appropriately documented, and
- The direct cost justification provides sufficient basis to classify an indirect cost as a direct cost within the context of the University’s cost accounting standards.

4. Expenses that May Not be Direct Charged

Costs that are incurred for common or joint objectives and therefore cannot be identified specifically with a particular sponsored project may not be direct charged.

4.1 Personnel

In conducting research, teaching, public service and other objectives, academic units clearly require administrative and clerical support to complement the technical and professional personnel who carry out these activities. Although it is known that there are differences among the various academic units, a core of administrative/clerical personnel exists within each department who simultaneously support the various missions by providing a broad range of general support services, including secretarial assistance, the procurement of materials and services, accounting and bookkeeping, and payroll and personnel. This “core” of normal general support services that support a broad range of activities, including federally sponsored research, comprises what the government defines as “departmental administration”. These costs are recovered in part by the institution through the reimbursement of indirect costs. Accordingly, the salaries of personnel engaged in providing this type of baseline departmental service cannot be directly charged to Federal Sponsored Agreements.

- There are specific job codes that are coded in the myUFL accounting system that represent these services and therefore are blocked from being charged to Federal Sponsored Agreements. Those job codes are listed at: [http://www.fa.ufl.edu/departments/cost-analysis/costing-guidelines-and-policies/myufl-job-codes-not-to-be-direct-charged-to-federal-awards/](http://www.fa.ufl.edu/departments/cost-analysis/costing-guidelines-and-policies/myufl-job-codes-not-to-be-direct-charged-to-federal-awards/)

4.2 Operating Expenditures

- **Memberships and subscriptions**: Memberships in professional or scholarly societies and subscriptions to scholarly publications may not generally be charged directly to a Federal Sponsored Agreement. It is the government’s view that these costs are seldom directly necessary for the performance of a sponsored agreement and that the memberships and subscriptions provide general, ongoing benefits to members/subscribers akin to continuing professional education. In the case of subscriptions, the University of Florida library (support for which is included in the indirect cost reimbursement) is presumed to provide access to periodicals, books and other forms of scholarly publications.

- **Local telephone charges**: The basic telephone line charge and local calls may not generally be charged directly to a sponsored project, except in the rarest circumstances when a separate, dedicated telephone line is necessary solely for the performance of a sponsored project. Local telephone charges may be direct charged for major projects/activities.

- **General office supplies**: General office supplies, including paper, binders, pencils, pens, file folders and staples may not generally be direct charged.
• **General purpose software**: Software and licenses for software to support tasks such as word processing and spreadsheet management may not generally be direct charged.

• **Postage**: Direct charges for postage should be restricted to projects with high demand for these items as described in the budget narrative. They must clearly identify with the work of a particular sponsored project or groups of sponsored projects. A postage meter or log should be used to document such support. Only that postage actually used in the performance of the sponsored project or a documented, reasonable allocation between projects may be directly charged. Shipping costs are not classified as ordinary postage and therefore are acceptable direct costs.

• **General Purpose Electronic Equipment**: Computers, desktops, laptops, tablets, and other computer related devices, are considered general purpose and may not generally be charged directly to Federal Sponsored Agreements.

There are specific Account Codes coded into the university’s accounting system that represent these items. These account codes are blocked from being direct charged to a Federal Sponsored Agreement. The account codes are listed at: [http://www.fa.ufl.edu/departments/cost-analysis/costing-guidelines-and-policies/charging-costs-directly-or-indirectly-to-sponsored-projects/](http://www.fa.ufl.edu/departments/cost-analysis/costing-guidelines-and-policies/charging-costs-directly-or-indirectly-to-sponsored-projects/)

### 5. Practices for Direct Charging

The following costs are examples of acceptable direct costs, as long as they meet the Guiding Principles under section 2 above and are identifiable to a particular cost objective. If a cost cannot be so identified, it cannot be directly charged.

#### 5.1. Personnel costs

- Researcher and Technician salaries and fringe benefits may be directly charged provided they are working to achieve the research goals of the award and the costs are supported and certified in the University of Florida’s Effort Reporting System.

- Clerical or Administrative salaries must meet all of the following conditions in order to justify being direct charged to Federal Sponsored Agreements. **If all of the following are not met**, the salaries of administrative and clerical staff should be treated as indirect costs. The judgment as to whether a direct charge for clerical and administrative assistant salaries is appropriate for a particular Federal Sponsored Agreement must be based on a “facts and circumstances” test that considers the needs of the project; accordingly, the initial judgment must be made by the Principal Investigator. In order to establish that the salaries of individuals performing such tasks may be charged directly to sponsored projects, the investigator must be prepared to demonstrate that their activities go well beyond the core of normal administrative services a department is expected to provide in support of its research and other programs at the University of Florida. It should be noted that just because the agency approved the charges doesn't per se make them appropriate. The Agency is relying on the University of Florida to follow this policy before requesting a CAS exemption for these charges. Actual charges to the award must be supported by the University of Florida Effort Reporting System. Unless the extent of such duties changes significantly in the course of the project, it is expected that such amounts will approximate those shown in the award budget.

  A. "Specific identification" with the sponsored project: Individuals whose salaries are paid from a sponsored project must have responsibilities specifically associated with the work of the sponsored project and must be able to certify this association on the University of Florida’s Effort Reporting System. The "specific identification" requirement may be satisfied in one of two ways.

    - Unusually high levels of administrative activity associated with unusually large and complex projects such as program projects, cooperative agreements, coordinating centers, multi-center grants or operations office.
Only in such cases, eligible responsibilities might include coordination of financial activities for multiple projects, core units, meetings for steering or advisory committees, pilot projects programs, special reporting needs, etc.

- Administrative work that is specifically related to the distinctive scientific and technical requirements of the work of the sponsored project, such as data collection, maintaining subject/patient data, phone surveys, etc.

*The salaries of individuals whose responsibilities do not meet either of these specific associations cannot be charged directly to a sponsored project. For example, responsibilities that duplicate normal departmental administrative functions such as proposal preparation, accounting, payroll, purchasing, etc. cannot be charged directly to a sponsored project. The cost of administrative work such as library searches and the typing of manuscripts would not be considered as allowable direct charge because such work is common across many sponsored projects. It is usually not related to the distinctive requirements of a particular award. Such costs may support grant activity, but they are classified as indirect costs because they do not meet the “specific identification” standard.*

**B. Realistic association:** The percentage of the individuals' effort and salary assigned to the sponsored project must be a realistic reflection of their planned effort in the case of budgeted costs or real effort in the case of actual costs.

**C. Specifically budgeted:** As Federal Sponsored Agreement budgets are developed, the percent of effort, salaries of administrative and clerical positions must be specifically included in the budgets and reasonably explained. Agency approval is required. Approval is assumed if the salary is budgeted and not specifically denied in the notice of award.

**D. Major project:** The administrative or clerical salaries must support a major project or activity. A major project would include:

- Large complex programs such as general clinical research centers, primate centers, engineering research centers and other sponsored projects that entail assembling and managing teams of investigators from a number of institutions.
- Projects which involve extensive data accumulation and entry, surveying, tabulation, cataloging and reporting such as epidemiological studies, clinical trials and retrospective clinical records studies.
- Projects that require making substantial travel and meeting arrangements for large numbers of program participants.
- Projects whose principal focus is the preparation and production of manuals and large reports excluding routine progress and technical reports.
- Projects that are geographically inaccessible to normal departmental administrative services i.e., seagoing research vessels and radio astronomy projects that are remote from the campus.

**5.2. Miscellaneous Supply and Related Costs**

Items such as office supplies, postage, telephone costs and memberships shall normally be treated as indirect costs. However, if “they can be identified specifically with” the sponsored project or can be assigned to its activities “relatively easily and with a high degree of accuracy” they may be approved for direct charging to Federal Sponsored Agreements. These costs may be charged to Federal Sponsored Agreements only if the cost supports activity that is directly related to the work of the sponsored project and the link between the cost and the activity is close and clear. Assignment of such costs through a general departmental “tax” would not typically be close or clear enough to justify them as direct costs.
• **Office supplies and postage:** Direct charges for office supplies and postage should be restricted to projects with a high demand for these items as described in the budget narrative. They must be clearly identified with the work of a particular sponsored project or groups of sponsored projects. A postage meter or log should be used to document such support. Shipping costs not classified as ordinary postage are acceptable direct costs. Only those supplies actually used in the performance of the sponsored project or a documented, reasonable allocation between projects may be directly charged.

• **Telephone charges:** Telephone charges that are reasonable and necessary to the performance of a project may be charged directly either by identifying them individually to the project they benefit, or on a proportional basis using documented, reasonable methods.

• **Project supplies, photocopy costs, animal care costs, computer costs, travel costs. Technical and scientific equipment (and related maintenance agreements) and specialized shop costs:** These must be clearly identified with the work of a particular sponsored project or groups of sponsored projects. For example, travel costs and photocopy costs cannot be charged directly unless they directly and clearly benefit the Federal Sponsored Agreement to which the charge is made. Computer supplies and software may be charged directly if a specific budget justification is provided in the budget narrative and the agency does not specifically disallow.
  
  A. **Note:** Supplies drawn from a common stock or inventory may be charged directly to a sponsored project if their allocability to the Federal Sponsored Agreement is recorded at the time of withdrawal. All such costs must be charged to the sponsored project based on anticipated usage at the time of withdrawal.

6. **Direct-Charging Practices that are NOT Acceptable to Federal Agencies**

Some practices are unacceptable because they do not meet federal standards for assigning costs to sponsored agreements with a high degree of accuracy. Examples are:

• Rotation of charges among sponsored projects without establishing that the rotation schedule credibly reflects the relative benefit to each grant.

• Assigning charges to the sponsored project with the largest remaining balance.

• Charging the budget amount in contrast to charging an amount based on actual usage.

• Assigning charges to sponsored projects in advance of the time the cost is incurred.

• Identifying a cost as something other than what it actually is (use of an incorrect Account Code).

• Charging expenses exclusively to sponsored projects, when the expense has supported non-sponsored project activities.

• Assigning charges that are part of the normal administrative support (e.g., proposal preparation, accounting, payroll).

• Assigning charges to the sponsored project that will be ending the soonest.

7. **Requesting Cost Principle Exemptions**

In order to request an exemption for any costs that are normally not charged to a Federal Sponsored Agreement to be allowed as a Direct Cost, an exemption must be requested. These exemption request forms are located at [http://research.ufl.edu/research/pdf/casexemptionform.pdf](http://research.ufl.edu/research/pdf/casexemptionform.pdf)

In addition more information must be provided to support the charge of administration or clerical salaries or other costs. To access the justification form visit: [http://research.ufl.edu/research/forms.html](http://research.ufl.edu/research/forms.html)
8. Grant Budgets, Rebudgeting, Cost Transfers, and Effort Reporting

8.1 Budgets: Budget submission should be realistic estimates of cost requirements. The estimated budgets should have documented approved CAS Exemption forms in the Principal Investigator’s files if generally unallowable charges are included. The design of the budget should express the intent of the Principal Investigator and should not be designed by an administrator without the Principal Investigator’s participation and approval.

8.2 Rebudgeting: Rebudgeting within a sponsored project grant, after it is awarded, is allowed if there is a legitimate need to redirect budgeted costs, provided the rebudgeting conforms to the sponsoring agency’s guidelines and is consistent with the university’s disclosed accounting practices. Rebudgeting is not allowed for the purpose of relieving financial pressure on a department’s unrestricted budget, or on other sponsored projects nor to assign costs that could not otherwise be assigned.

8.3 Cost Transfers: Cost transfers to sponsored projects are permitted in order to link a cost more appropriately with the benefit it is providing. For example, if an employee changes his/her effort percentages from those reported on his/her original effort report, a payroll cost transfer is the means of making the corresponding change in salary distribution. Cost transfers to sponsored projects are not permitted in order to solve funding problems or other reasons of convenience. For audit purposes cost transfers must be completed in a timely manner and an adequate explanation for all rebudgeting and cost transfer actions must be on file in the department.

8.4 Effort Reporting: Effort reporting is a federal requirement; Principal Investigators are obligated to follow the federal requirements concerning effort reporting upon acceptance of a federal award. Federal effort reporting guidelines require that either the individual or someone having firsthand knowledge of the work performed, e.g., the Principal Investigator, must sign the effort reports. Regardless of who signs, the Principal Investigator must be able to verify that persons paid on their contracts or grants actually performed the work and must be in a position to provide agreement to the effort certified.

9. Responsibility for Compliance
Responsibility for following these guidelines lies primarily with Principal Investigators, Department Chairs and fiscal personnel with the general guidance and oversight of the colleges, schools and divisions. The University of Florida administration is responsible for guidance and training and for reviewing compliance through periodic internal and external audits.

9.1 Cost Analysis: The University accepts responsibility for creating uniform rules of conduct relating to management of contracts and grants and assuring compliance with the rules of such contracts and grants. No matter how flexible, these guidelines will require substantial attention and effort in their implementation. The University of Florida’s administration and the administration of each of the colleges, realize that day-to-day responsibility for compliance rests with the Principal Investigators and departmental fiscal personnel. The University accepts responsibility for developing a set of operating principles and guidelines that comply with federal regulations, and that among other things, clearly delineate those research-related expenses it identifies as direct costs vs. indirect costs. It takes responsibility for disseminating this information to all University of Florida faculty and staff, whether their research is supported by governmental or non-governmental sources. It takes responsibility for overseeing the implementation of these principles and guidelines.

9.2 Division of Sponsored Programs: The Division of Sponsored Programs supports the University and specifically the Department of Cost Analysis in its mission to ensure fiscal integrity by reviewing all requests for exemption allowing normally indirect costs to be charged directly. The Division will engage on all policy and procedure reviews regarding Cost Principles. The Division will assist in the development of training and educational materials related to Cost Principles.
9.3 **College/Departmental/Division:** The college, department or division is responsible for implementing and monitoring compliance with these guidelines. They are also responsible for providing Principal Investigators with the information necessary to fulfill their fiduciary and sponsored project management responsibilities. The college is responsible for clearly delineating the division of responsibilities between the college and its departments/divisions. The college, department or division should have records that will permit ready auditing by internal or external auditors. For example, if an investigator’s laboratory is supported by multiple sponsored projects with distinct specific aims, cost incurred for use of common equipment and other activities that benefit all these contracts or grants should be able to be distributed across these sponsored projects on the basis of the proportional benefit provided to each of them.

9.4 **Principal Investigator:** Responsibility for scientific and budgetary decision-making in Federal Sponsored Agreements, following the University of Florida guidelines, is assigned to and must be accepted by, the individual designated as the Principal Investigator. These decisions must be recorded in a manner that assures their subsequent accurate implementation. The Principal Investigator is responsible for giving the college, department or division instructions on specific allocation of funds.