

# Cost Principles Directives & Procedures

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Responsible Office: Cost Analysis

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## 1. Definitions

### 1.1.1. Direct Costs

Costs that can be identified specifically with a particular sponsored award, 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 awards, all costs incurred for the same purpose in like circumstances shall be treated as direct costs of all other activities of the institution.

### 1.1.2. Documentation

Detailed explanation and support documents as evidence to substantiate allocability, allowability, and reasonableness for a specific transaction.

### 1.1.3. Federal Sponsored Award

Any Federal grant, contract, or cooperative award received directly by the University of Florida as well as subawards received by the University under Federal Sponsored Awards to other organizations.

### 1.1.4. Indirect (F&A) Costs

Costs incurred for common or joint objectives [of the University] and not readily assignable to a particular sponsored award, instructional activity or other institutional activity, without effort disproportionate to the results achieved. "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 "Facilities".

For additional definitions related to the chart of accounts or chartfields, see: <http://www.fa.ufl.edu/directives-and-procedures/accounting-and-reporting/>

## 2. Guiding Principles

The guiding principles or criteria from the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Final Rule – 2 CFR Part 200 (i.e., the [Uniform Guidance](#)) shall be used to determine whether a cost can be charged to a Federal Sponsored Award. All factors must be met for a cost to be allowable to be charged to a Federal Sponsored Award. In addition to the principles of reasonableness, allocability, and consistent as further described below, all charges must also:

1. Conform to any limitations or exclusions in the Federal award as to types or amount;
2. Not be included as a cost or used to meet cost sharing or matching requirements of any other Federal Sponsored Award; and
3. Be adequately documented.

### 2.1. Reasonable

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. For a cost to be considered reasonable, it must be:

1. Recognized as necessary for the performance of the Federal Sponsored Award;
2. Consistent with the requirements imposed by arms-length bargaining, federal or state laws and regulations, and ethical business practices, and terms and conditions of the Federally Sponsored Award;
3. Consistent with market prices for comparable goods or services for the geographic area;

4. Related to an action and/or in an amount deemed within the norms of business conduct (i.e., passes the “prudent person” test); and
5. Consistent with established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

## 2.2. Allocable

A cost is allocable to a Federal Sponsored Award if the goods or services involved are chargeable or assignable to that Federal Sponsored Award in accordance with the relative benefits received. For a cost to be considered allocable, it must:

- Be incurred solely to advance the work under a Federal Sponsored Award, or
- Benefit both the Federal Sponsored Award 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.

Any cost allocable to a Federal Sponsored Award may not be charged to other sponsored awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal Sponsored Award, or for other reasons.

### 2.2.1 Proportional Benefit Rule

Under some circumstances, a direct expense may benefit two or more sponsored awards or activities. When the cost's proportional benefit towards each sponsored award and/or activity can be determined without undue effort or cost, then the cost should be allocated 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, the costs may be allocated on any reasonable documented basis. Where the purchase of equipment is specifically authorized under a Federal Sponsored 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.

## 2.3. Consistent in Treatment

For a cost to be considered consistent in treatment, it must:

- Be consistent with policies and procedures that apply uniformly to both Federal Sponsored Awards and other activities of the University; and
- NOT be assigned to a Federal Sponsored 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.

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 Federal Sponsored Awards, unless the circumstances related to that award are clearly different from the normal operations of the institution. For salaries of administrative and clerical staff, these costs must be specifically included in the proposal budget or have prior written approval of the Sponsor.

## 3. Direct-Charging Practices

### 3.1. Unacceptable practices

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

- Rotating charges among sponsored awards without establishing that the rotation schedule credibly reflects the relative benefit to each sponsored award
- Assigning charges to the Federal Sponsored Award with the largest remaining balance
- Charging the budget amount rather than charging based on actual usage
- Assigning charges to a Federal Sponsored Award 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 Federal Sponsored Awards, when the expense has supported other activities.
- Assigning salaries for personnel that are assumed to be part of the normal administrative support of the institution (e.g., accounting, payroll).
- Assigning charges to the Federal Sponsored Award that will be ending the soonest.

### 3.2. Acceptable practices

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

#### 3.2.1 Personnel Costs

Researcher, technician, graduate student and postdoctoral salaries and fringe benefits may be directly charged in proportion to the amount of time anticipated to spend on the Federal Sponsored Award. Only in the case of personnel can budget estimates be charged. Any deviation longer than one to two months from the estimated amount must result in adjustments to the salaries charged. All charges must be certified each semester in the University of Florida's Effort Reporting System.

#### 3.2.2 Non-Personnel Operating Expenses

Laboratory Supplies, field supplies, animal care costs, travel costs, technical and scientific equipment (and related maintenance agreements) and other expenses must be clearly identified with the work of a Federal Sponsored Award.

*Note: Supplies drawn from a common stock or inventory may be charged directly to a Federal Sponsored Award if their allocability to the Award is recorded at the time of withdrawal. All such costs must be charged to the sponsored award based on anticipated usage at the time of withdrawal.*

### 3.3. Direct Charging Costs that are Normally Treated as Indirect (F&A) Costs

The [Uniform Guidance](#), codified at 2 CFR 200, incorporates the [Cost Accounting Standards \(CAS\) 48 CFR 9905.501, 9905.502, 9905.505, 9905.506](#) and requires that administrative and clerical salaries as well as non-salary cost items such as office supplies, postage, local telephone costs, subscriptions and memberships should normally be treated as indirect (F&A) costs. The University blocks certain account codes from being direct charged to Federal Sponsored Awards. Details of the account codes are posted at: [Charging Costs Directly or Indirectly to Federally Funded Sponsored Projects](#)

When circumstances of a Federal Sponsored Award are not like other activities of the institution and therefore warrant direct charging of these to the Federal Sponsored Award, the Principal Investigator should request a CAS Exemption. Approval of this exemption allows direct charging of specific items that are normally treated as indirect (F&A) costs. The Division of Sponsored Programs (DSP) reviews the requests and makes a final determination of allowability.

*NOTE: FIXED PRICE AWARDS require pricing based upon the cost principles established in section 2 above. The University will require budgets detailing the pricing for fixed priced awards. However, federal regulations state that once the price is determined, there will be no review of expenses incurred. Therefore, the block on all Group 1 items outlined in 3.3.2 below will not be established in the accounting system. All Group 2 cost items will require a CAS Exemption.*

#### 3.3.1 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 variations across campus, each unit has a core of administrative/clerical personnel who provide a range of general support services including secretarial assistance, the procurement of materials and

services, accounting and bookkeeping, and payroll and personnel. This “core” comprises what the government defines as “departmental administration” and their 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 departmental support cannot be directly charged to Federal Sponsored Awards.

- There are specific job codes in the myUFL accounting system that represent the positions that typically provide these services and therefore are blocked from being charged to Federal Sponsored Awards. 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/>

Administrative and clerical salaries may be approved to be direct charged to a Federal Sponsored Award only if all of the following conditions are met and a CAS Exemption is approved.

- Administrative or clerical services are integral to the performance of the scope of the Federal Sponsored Award.
- The services performed can be specifically identified with the Federal Sponsored Award.
- Such costs are explicitly included in the budget and justified in the budget narrative as integral to the performance of the Federal Sponsored Award. A minimum of 20% FTE is required. If less than 20% FTE is included, special circumstances must be clearly indicated. If not included in the awarded budget, prior written approval of the Sponsor’s grant or contract officer is required.
- The costs are not also recovered as indirect costs.

### 3.3.2 Operating Expenditures

Items such as office supplies, computers, postage, telephone costs and memberships shall normally be treated as indirect costs. However, if “they can be identified specifically with” the Federal Sponsored Award or can be assigned to its activities “relatively easily and with a high degree of accuracy”, they may be approved for direct charging. Assignment of such costs through a general departmental “tax” would not typically be close or clear enough to justify them as direct costs.

#### 3.3.2.1 Group 1

Group 1 cost items listed below will be permitted only when the items being requested can be clearly demonstrated as being essential or necessary and allocable for the completion of the scope or work being supported by the Federal Sponsored Award.

- Audio Visual Supplies and Devices
- Cell Phones and Service Plans
- Memberships and subscriptions: Memberships in professional or scholarly societies and subscriptions to scholarly publications costs are seldom directly necessary for the performance of a Federal Sponsored Award. They provide general, ongoing benefits to members/subscribers akin to continuing professional education. In the case of subscriptions, the University of Florida library is presumed to provide access to scholarly publications.
- Local telephone charges: Restricted to circumstances when a separate, dedicated telephone line is necessary for the performance of the Federal Sponsored Award.
- General office and computer supplies including paper, binders, pencils, pens, file folders, printer cartridges and staples should be restricted to only those Federal Sponsored Awards for which usage can be documented to significantly exceed normal administrative operations.
- General purpose software: **Only software and licenses** that are: required for the completion of the scope of the Federal Sponsored Award; that is outside the software that is required for typical administrative tasks (i.e. Microsoft Products); and that can be allocated according to the principles in section 2 above may be directly charged.

- Postage charges are restricted to Federal Sponsored Awards with high demand as described in the budget narrative. **Only that postage actually used in the performance of the** Federal Sponsored Award or a documented, reasonable allocation between awards may be directly charged. A postage meter or log should be used. Shipping costs are not classified as ordinary postage and are acceptable direct costs.
- General Purpose Equipment, including Computers and Accessories: General Purpose Equipment is defined as “Equipment that is not limited to research, medical, scientific, or other technical activities. Examples include office equipment and furnishings, telephone networks, air conditioning equipment, reproduction and printing equipment, and motor vehicles.”
  - *Computers, desktops, laptops, tablets, and other computer related devices, are considered General Purpose Equipment and may be direct charged only when there is a clear method of linking the computer to the scope of the Federal Sponsored Award and a reasonable method of allocation of the computer’s cost amongst all activities for which it will be used. Charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated to the performance of a Federal Sponsored Award.*
- Uniforms

### 3.3.2.2 Group 2

Group 2 cost items listed below will be permitted only when the items have been included in the budget and/or budget narrative of the application resulting in funding under the Federal Sponsored Award and are clearly allocable to the Federal Sponsored Award.

Awards & Commendations	Entertainment Expense	Laundry Services	Small Hand Tools
Accounting Services	Entertainment Services	Legal Services	Steam
Bank Fees	Event Tickets	Library Resources	Utilities - Resale
Books & Publications – Non Library	Electricity	Linens	Utilities – Other
Building – Supplies	Electronic Data Subscriptions	Moving Costs	Utilities – Tax
Building – Maintenance Contracts	Food & Beverages	Natural Gas	Utilities – Reimburse
Building – Modular	Fax Machines	Office Equipment	Vehicles >\$4,999
Building – Repairs	Garbage Collection	Pagers	Water
Cable Television	Insurance – University	Photocopying	
Chilled Water	Janitorial Services	Prof Licenses	
Dorm Furniture	Land Purchase	Sewage	

There are specific Account Codes in the university’s accounting system that represent these items. These account codes are blocked from being direct charged to a Federal Sponsored Award. 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/>

## 4 Budgets

### 4.3 Budgets

Budgets must be realistic estimates of all costs required to complete the scope of work outlined in the Federal Sponsored Award. 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.

All sponsored awards, including fixed price awards, will require budgets at least at the categorical level. All budgets should include both direct and indirect costs. Indirect costs should be included per the University's F&A Cost [Policy](#) and [Directives & Procedures](#).

#### 4.4 Rebudgeting

Rebudgeting of awarded funds is allowable if there is a legitimate need to redirect budgeted costs, provided the rebudgeting conforms to the sponsor'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 Federal Sponsored Awards, nor to assign costs that could not otherwise be assigned.

Care should be taken when rebudgeting costs that do not incur indirect costs. When rebudgeted to items which incur indirect costs, the overall availability of direct funds is reduced.

## 5 Responsibility for Compliance

### 5.1 Principal Investigator

Responsibility for scientific and budgetary decision-making in Federal Sponsored Awards and for following the University of Florida guidelines is assigned to the Principal Investigator. The Principal Investigator is responsible for giving the college, department or division instructions on specific allocation of funds. Such instructions must comply with the guidance outlined in this document.

### 5.2 College/Department/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 award management responsibilities.

The college is responsible for clearly delineating the division of responsibilities between the college and its departments and divisions. The college, department or division must maintain documentation that will permit auditing by internal or external auditors. This documentation should be stored in institutional systems (i.e. attached to the voucher in myUFL), rather than in local systems, wherever possible.

### 5.3 University of Florida

The University accepts responsibility for creating uniform rules of conduct relating to management of sponsored programs and assuring compliance with the rules of such programs. No matter how flexible, these guidelines will require substantial attention and effort in their implementation. The University of Florida's administration realizes that day-to-day responsibility for compliance rests with the Principal Investigators and unit 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 sponsored program expenses it identifies as direct costs and indirect costs. It takes responsibility for disseminating this information to all University of Florida faculty and staff, whether their work is supported by governmental or non-governmental sources. The University administration takes responsibility for overseeing the implementation of these principles and guidelines.

#### 5.3.1 Division of Sponsored Programs

The Division of Sponsored Programs supports the University in its mission to ensure fiscal integrity by reviewing all requests for exemptions allowing normally indirect costs to be charged directly. The

Division will engage in creation and update of all policy and procedures regarding Cost Principles. The Division will assist in the development of training and educational materials related to Cost Principles.

### **5.3.2 Contracts & Grants Accounting Services**

The Office of Contracts & Grants Accounting Services (C&G) supports the University in its mission to ensure fiscal integrity by reviewing all transactions posted to sponsored awards at least annually. C&G will engage in creation and update of all policy and procedure regarding Cost Principles and will assist in the development of training and educational materials related to Cost Principles.

### **5.3.3 Office of Cost Analysis**

The Office of Cost Analysis supports the University in its mission to ensure fiscal integrity performing quality assurance reviews of departments and the University's fiscal transactions. The department reviews items of cost to allocate to the appropriate cost pools during the indirect cost proposal development. Cost Analysis will engage in creation and update of all policy and procedures regarding Cost Principles and assist in the development of training and educational materials related to Cost Principles.