Basic Budgeting - AUDIT of Cost

Valarie King Director, C&G Accounting
April 03, 2015
Composition of Total Cost

2 CFR 200.402

“The total cost of a Federal award is the sum of the allowable direct costs and allocable indirect cost…..”
2 CFR 200.403 General Criteria for Allowability

1) Cost is *necessary and reasonable* for the performance of the sponsored agreement

2) Cost conforms to any limitation or exclusions set forth in these principles or in the Federal award as to types or amount of cost items

3) Cost is *consistent* with policies and procedures that apply uniformly to both sponsored and non-sponsored activities
2 CFR 200.404 Reasonable Cost

A cost is considered reasonable if:
A prudent person would pay the price under circumstances prevailing at the time the cost is incurred
Consistently Treated

*Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.*

Where the University treats a particular type of cost as a direct cost on sponsored agreements, all costs incurred for the same purpose in like circumstances must be treated as direct costs for all activities of the institution.

*Consistent treatment of costs is necessary to avoid inappropriate charges* to the federal government or other sponsors when sponsored agreements are charged directly for specified costs, then charged again, through the University’s indirect cost rate.
A cost is **allocable** to a particular sponsored project if it can be **assigned** to a project and the **assigned cost benefits the project**

If a cost **benefits multiple projects** in proportions that can be determined without undue effort, the cost **must be allocated** to the projects **based on the proportional benefit**

If a cost benefits **multiple projects** in proportions that **cannot be determined** because of the interrelationship of the work involved, **allocate** the cost on a **reasonable documented basis**

Allocable cost **may not** be charged to other Federal awards **to overcome fund deficiencies**
2 CFR 200.405 Allocable Cost

If a cost benefits multiple projects in proportions that can be determined without undue effort, the cost must be allocated to the projects based on the proportional benefit.

UAH Cost Policy - Proportional Benefit

The proportional benefit rule - two or more projects whether or not they are technically and scientifically related, but the distribution must correspond with the benefit received.

The proportional benefit rule is used when:
1) The cost in question qualifies as a direct cost.
2) The cost benefits two or more projects or activities; and
3) Without undue effort or administrative burden, a distribution can be determined that reasonably reflects the proportional distribution of the benefit.

The PI(s) must be a part of the approval process when using this method.

Examples of Acceptable Methods for Non-Compensation

The PI’s best judgment of the proportional benefit.

Logs tracking usage.
2 CFR 200.405 Allocable Cost

If a cost benefits **multiple projects** in proportions that **cannot be determined** because of the interrelationship of the work involved, **allocate** the cost on a **reasonable documented basis**

**UAH Cost Policy – Interrelated**

Interrelationship rule - two or more projects **that are scientifically and technically related**. However, the distribution of costs **does not have to reflect the benefit received**.

The interrelatedness rule **provides more flexibility in distributing costs, but the conditions for its use are more stringent**.

**Two conditions must be met:**

1) the interrelatedness of the projects must be established

2) the impracticality of charging the cost directly to a single project or using the proportional benefit rule must be established
Criteria for establishing interrelatedness:

All of the following conditions must be met in order to establish interrelatedness for sponsored projects, federal and non-federal

1) The projects are scientifically and technically related

2) There is no change in the scope of the individual project in the group, relative to the scope described in the proposal

3) Establishing interrelatedness will not be detrimental to the conduct of work approved under each individual project

4) Establishing interrelatedness will not be used to circumvent the terms and conditions of an individual project

5) Any additional requirements of the particular sponsor have been met

An interrelated cost may be allocated on any reasonable documented basis
Allocable cost **may not** be charged to other Federal awards **to overcome fund deficiencies**.

It is the **responsibility of all departments and operating units** to have in place **internal controls** that provide for the charging of all costs to the appropriate accounts. Therefore, transferring costs between accounts is considered legitimate **only** when necessary to correct an error, properly allocate charges between accounts involving closely related work, or redistributing charges in those few cases where the university’s billing systems will not allow for charging the appropriate amount to the proper accounts upon original posting.
Why are Cost Transfers Problematic?

The original cost has been approved or certified as allowable and allocable and the cost transfers invalidates that original certification or approval.

Which Cost Transfers are Problematic?

1) Transfers between two federal projects
2) Transfers greater than 90 days of the original transfers at the end of the project period
3) Transfers with inadequate justification
4) Transfers to remove an overrun
5) Retroactive salary adjustments
Order of Precedent

2 CFR 200
Agency Terms & Conditions
Special Program
Award
Public Laws
Institutional Policy
Question

A cost maybe considered reasonable to a particular sponsored project if the goods or services involved are chargeable or assignable to the sponsored project in accordance with relative benefits received.

True or False
False
A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under circumstances prevailing at the time the decision to incur the cost was made.
Question

Which of the following costs can benefit the grant or contract to which they are being charged?

A. Allocable Cost  
B. Allowable Costs  
C. Opportunity Costs  
D. None of these choices
Allocable Cost

Allocable Costs are those allowable costs that can benefit the grant or contract to which they are being charged.
Overview

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reasonable</td>
<td>Goods or services acquired and amount involved reflect an action a prudent person would have taken</td>
</tr>
<tr>
<td>Allocable</td>
<td>Benefits the project or award that was charged</td>
</tr>
<tr>
<td>Allowable</td>
<td>Items not restricted by federal regulations or the specific grant/contract</td>
</tr>
<tr>
<td>Treated Consistently</td>
<td>Like costs in similar circumstances need to be treated consistently</td>
</tr>
</tbody>
</table>
Overview Cont....

If the cost are not *reasonable, allocable, documented and consistently treated*, they should *not* be charged to the award.

Allowable cost must conform to the terms and conditions of the contract or grant, 2 CFR 200 and the University’s policies and procedures.
Overview Cont....

Examples of when cost may not be allocated to a sponsored project

1) To meet deficiencies caused by overruns
2) To avoid restrictions imposed by law or the terms and conditions of the award
3) Because one project has funds available
2 CFR 200.412 Classification of Cost

“There is no universal rule for classifying certain costs as either direct or indirect (F&A) under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the Federal award or other final cost objective. Therefore, it is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect (F&A) cost in order to avoid possible double-charging of Federal awards”
CSPAN
Charger-Sponsored Programs Administration Network
2 CFR 200.413 Direct Cost

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

Examples

1) Salary and Fringe of employees who work on the award
2) Materials & Supplies
3) Subcontracts
2 CFR 200.413 Direct Cost

“The salaries of administrative and clerical staff *should normally be treated as indirect* (F&A) costs. Direct charging of these costs *may be appropriate* only if *all* of the following conditions are met:

1) Administrative or clerical services are *integral* to a project or activity;
2) Individuals involved can be *specifically identified* with the project or activity;
3) Such costs are *explicitly included in the budget* or have the *prior written approval* of the Federal awarding agency; and
4) The costs are *not also recovered as indirect costs.*

UAH Cost Policy

Costs normally treated by the University as *indirect* may be charged to a sponsored project when *all* of the following conditions are met:

1) The costs are *incurred to meet the special purpose or circumstance* of the sponsored agreement
2) The cost can be readily identified specifically with the project with a high degree of accuracy
3) The cost is *budgeted with justification, and approved*

The determining factor in classifying salaries of administrative clerical staff as direct *must relate to the different work* performed to meet the exceptional requirements of the project as compared to that of administrative and clerical staff who perform work related to routine departmental or general institutional administration.
Questions to consider:
1) What is the direct relationship to the scope of work?
2) Are the services routine in nature and serving an entire department?
3) What is UAH’s policy?
4) Are salaries for the clerical or administrative personnel included and justified at the time of proposal submission?
5) Has the sponsor approved the budget and budget justification with these types of cost?
Decision Tree

Is the cost allowable as direct cost?

Does the cost conform to the terms and conditions of the award?

Is the cost in accordance with the University’s policy?

Charge to Institutionally funded account

Charge to Sponsored Research Account
2 CFR 200.414 Indirect “F&A” Cost

Cost that are incurred for *common or joint objectives* [of the University] and, therefore, cannot be identified readily and specifically with a particular sponsored project, an instructional activity or any other institutional activity

- Examples
  - Departmental Administrative Activities
  - Salary and Wages Sponsored Project Administrators
  - Facilities Operations & Maintenance
The Facilities component is the biggest driver of the F&A rate calculation and is highly dependent on the results of the space survey.
Charger-Sponsored Programs Administration Network
Selected Items of Cost

2 CFR 200.453 Supplies & Materials

(c) “Materials and supplies used for the performance of a Federal award may be charged as direct costs. In the specific case of computing devices, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award.”

UAH Cost Policy – Computing Hardware

Computing hardware is normally an indirect cost because computers are used in support of a variety of activities. However, computers may be charged to a sponsored agreement when the following are met:

a) A specific identification with the project
b) Be required to fulfill the scientific objectives
c) Be a preponderance of use on the project
d) Specifically listed in the proposal budget and be awarded
2 CFR 200.461 Publication Cost

Can charge the Federal award before closeout for the costs of publication or sharing of research results if the costs are not incurred during the period of performance.

2 CFR 200.463 Recruiting Cost

Short-term, travel visa costs (as opposed to longer-term, immigration visas) are generally allowable.

Since short-term visas are issued for a specific period and purpose, they should be clearly identified as directly connected to work performed on the award.

Must be critical and necessary for the conduct of the project.
## Selected Items of Unallowable Cost

<table>
<thead>
<tr>
<th>Item Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>200.422</td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>200.426</td>
<td>Bad Debts (uncollectible)</td>
</tr>
<tr>
<td>200.429</td>
<td>Commencement or convocation costs Contingency provisions</td>
</tr>
<tr>
<td>200.434</td>
<td>Contributions and donations</td>
</tr>
<tr>
<td>200.438</td>
<td>Entertainment (except if there is a programmatic purpose)</td>
</tr>
<tr>
<td>200.441</td>
<td>Fines and penalties</td>
</tr>
<tr>
<td>200.442</td>
<td>Fundraising</td>
</tr>
<tr>
<td>200.445</td>
<td>Goods or services for personal use of employees</td>
</tr>
</tbody>
</table>
Selected Items of Unallowable Cost Cont.

200.450 Lobbying

200.464 Relocation cost of employee (if employee resigns within 12 months)

200.474 Certain travel cost (Airfare cost for first – class or business class except for medical needs)
Is this Allowable?

I have three grants and I charge all of my supplies to one award?

I need a new laptop and want to purchase it on my grant which expires in one year.

What if the grant expires in 2 years?

I want to charge the telephone in my lab to my grant.

While traveling to collect statistical data, I need an iPhone to stay in touch with my office.

My foreign graduate student will be conducting research on my grant. Can I charge her J-1 visa?
Cost sharing or matching is the portion of the project or program cost that is not borne by the sponsor

**Mandatory**

Required by the sponsor as a condition of eligibility for an award
Must be included in Federal award (2 CFR 200.210)
Must be properly documented and tracked for cost accounting and compliance purposes
**Cost Sharing Cont....**

<table>
<thead>
<tr>
<th>Voluntary Committed</th>
<th>Voluntary Uncommitted</th>
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</table>
| Not required by the sponsor as a condition of eligibility, “but may be considered if it is **both** in accordance with Federal awarding agency regulations and specified in a notice of funding opportunity”  
“Criteria for considering voluntary committed cost …. must be explicitly described in the notice of funding opportunity” 2 CFR 200.306 | Not required by the relevant program solicitation |
| Becomes a binding and auditable obligation | Not referenced in the proposal or award |
| Must be properly documented and tracked for cost accounting and compliance purposes | Not formally tracked (or auditable) |
CSPAN
Charger-Sponsored Programs Administration Network
<table>
<thead>
<tr>
<th>Title</th>
<th>Contact</th>
<th>Phone</th>
<th>Email Address</th>
<th>Campus Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director</td>
<td>Valarie King</td>
<td>824-2231</td>
<td><a href="mailto:vlk0001@uah.edu">vlk0001@uah.edu</a></td>
<td>SKH 237</td>
</tr>
<tr>
<td>Senior Accountant</td>
<td>Tessa Brown</td>
<td>824-6265</td>
<td><a href="mailto:tlb0008@uah.edu">tlb0008@uah.edu</a></td>
<td>SKH 235</td>
</tr>
<tr>
<td>Senior Accountant</td>
<td>Nedric Jones</td>
<td>824-6554</td>
<td><a href="mailto:npj0002@uah.edu">npj0002@uah.edu</a></td>
<td>SKH 253</td>
</tr>
<tr>
<td>Accountant I</td>
<td>De'Onah Norfleet</td>
<td>824-2240</td>
<td><a href="mailto:dtn0002@uah.edu">dtn0002@uah.edu</a></td>
<td>SKH 234</td>
</tr>
<tr>
<td>Accountant I</td>
<td>Jeremy Prater</td>
<td>824-2235</td>
<td><a href="mailto:praterj@uah.edu">praterj@uah.edu</a></td>
<td>SKH 251</td>
</tr>
<tr>
<td>Accountant II</td>
<td>Mary Smith</td>
<td>824-6068</td>
<td><a href="mailto:mjs0015@uah.edu">mjs0015@uah.edu</a></td>
<td>SKH 233</td>
</tr>
<tr>
<td>Accountant II</td>
<td>Pierre Edwards</td>
<td>824-6421</td>
<td><a href="mailto:pae0001@uah.edu">pae0001@uah.edu</a></td>
<td>SKH 252 B</td>
</tr>
<tr>
<td>Accountant II</td>
<td>Noelle Schneider</td>
<td>824-2232</td>
<td><a href="mailto:jns0027@uah.edu">jns0027@uah.edu</a></td>
<td>SKH 252 C</td>
</tr>
<tr>
<td>C&amp;G Administrator</td>
<td>Dawn Sylvester</td>
<td>824-2234</td>
<td><a href="mailto:mva0001@uah.edu">mva0001@uah.edu</a></td>
<td>SKH 254</td>
</tr>
<tr>
<td>Accounting Technician</td>
<td>Carrie Rice</td>
<td>824-2236</td>
<td><a href="mailto:clr0001@uah.edu">clr0001@uah.edu</a></td>
<td>SKH 252 A</td>
</tr>
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