MILWAUKEE SCHOOL OF ENGINEERING

Administrative Policy – Created October 2016

Cost Allocation Policy on Sponsored Agreements/Grants

Policy Statement

Direct, indirect and allowable costs shall be consistently estimated, charged, accumulated, and reported in compliance with federal cost principles contained in the Uniform Guidance and the University's cost accounting standards.

Reason for the Policy

This policy statement and the guidelines and definitions contained within provide reference in determining of charging expenses to a sponsored agreement. Furthermore, this policy ensures consistent usage of University's cost accounting practices to prevent unallowable costs and to prevent double charging of costs on sponsored agreements.

Applicability of the Policy

This policy applies to all employees, including staff, faculty and student workers, who manage, supervise, or conduct University business or financial transactions or activities using sponsored funds. This policy applies to all sponsored agreements, both federal and non-federal. However, the costs identified as "normally indirect" may be directly charged to a non-federal project if permitted by the sponsor's policy or otherwise approved by the sponsor. For this purpose a federal sponsored agreement includes federal awards received directly by the University as well as subawards received by the University under federal awards to other organizations.

Policy Elaboration

University personnel are expected to be aware of and comply with this University policy including, without limitation, the principles and policies listed below. Confirmed violations may result in disciplinary action. In some instances, civil claims and criminal charges may also result. Procedures for the investigation of suspected violations, imposition of disciplinary action, and the availability of grievance or appeal channels shall be governed by otherwise applicable University policies and handbooks.

Purchases using sponsored funds must be made in accordance with Uniform Guidance (http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl).

Additionally, the University follows the NIH Grants Policy Statement, (http://grants.nih.gov/grants/policy/nihgps/nihgps.pdf) - other agency-specific guidance, and the specific terms and conditions of individual sponsored agreements.

Four guiding principles or criteria from the applicable federal guidelines 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 below. For a given cost to be charged to a sponsored agreement, all four (4) of these criteria must be met.

1. Reasonableness – For a cost to be considered reasonable, it must be:
    a. Recognized as necessary for the operation of the institution or the performance of the Agreement,
    b. Consistent with the requirements imposed by arms-length bargaining, federal or state laws and regulations, and ethical business practices, and
    c. Related to an action and/or in an amount deemed within the norms of business conduct (i.e., passes the "prudent person" test).
2. Allocability – For a cost to be considered allocable, it must:
    a. Be incurred solely to advance the work under a sponsored agreement, or
    b. Benefit both the sponsored agreement and other work of the institution, in proportions that can be approximated through the use of reasonable methods and
    c. Be assignable to the benefiting activities without undue effort or cost.
3. Allowability – For a cost to be considered allowable, it must:
    a. Not be designated as "unallowable" under applicable federal guidance,
    b. Adhere to sponsor-specific policies and award-specific terms and conditions regarding specific items of cost, and
    c. Adhere to University policies regarding specific items of cost.
4. Consistency – For a cost to be considered consistently treated,
    a. It must be treated in the same manner (i.e either as direct or indirect) in like circumstances
    b. Certain type of costs like office supplies, postage, direct charging of administrative salaries are normally treated as indirect costs unless the circumstances related to a particular project are clearly different from the normal operations of the institution.

Direct Costs

A direct cost of a sponsored agreement regardless of funding source (i.e., cost share) is one that can be identified specifically with that sponsored agreement or that can be assigned to the sponsored agreement relatively easily with a high degree of accuracy. General cost categories that may be identified as direct costs on individual sponsored agreements include, but are not limited to, the following:

- Salaries, wages, and related fringe benefit costs of faculty, staff researchers, and research assistants
- Graduate students
- Laboratory/scientific/technical materials, services, and supplies
- Scientific equipment costs
- Travel costs
- Consultant/subcontract costs
- Other direct costs as specifically required, budgeted, and/or approved as necessary to accomplish the purposes of the individual sponsored agreement

Due to the relative ease of assigning academic administrative costs with a high degree of accuracy, academic administrative costs are treated as a direct cost on experiment station, extension, and federal formula grants. Applicable indirect rates on these types of grants do not include academic administrative costs.

If a cost benefits two or more projects/activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects/activities based on the proportional benefit. If proportions cannot be determined due to the interrelationship of the work, then costs may be allocated on

any reasonable basis for any allocation basis used, written support must exist in each case which describes how the allocations have been determined and why the method is reasonable.

Direct Cost Classification and Charging on Sponsored Agreements

Direct or indirect costs must be classified to the correct expense account as defined by the University Chart of Accounts. Improper classification for the purpose of charging an unallowable cost or an indirect cost as a direct cost on a sponsored agreement is prohibited.

Direct costs charged to sponsored agreements may not be shifted to other sponsored agreements to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience. Direct costs must be charged to the appropriate sponsored agreement when first incurred. Charging costs to a sponsored agreement until another sponsored agreement becomes available is prohibited. The establishment of advance accounts is recommended to accumulate direct costs until sponsored agreements are awarded.

Direct costs incurred for use on multiple funding sources which include a sponsored agreement(s) must be allocated based on the proportional benefit rule. The allocation process must use reasonable methods and be without undue effort or cost.

Direct costs charged to awards should be net of any applicable credits. Examples of such transactions are: purchase discounts, rebates, or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges.

Indirect Costs (Facilities and Administrative Costs)

Indirect costs are those costs that are incurred for common or joint objectives and cannot be identified readily or specifically with a particular sponsored agreement, or any other institutional activity. Costs that are normally charged as indirect costs on sponsored agreements (via a Facilities & Administrative rate) include, but are not limited to, the following:

- Salaries and related fringe benefits of administrative and clerical staff
- Office supplies (pencils, paper, notebooks, standard forms, file folders, etc.)
- Postage costs (not identified in a budget narrative of a sponsored agreement)
- Telecommunications (office phone related costs including monthly equipment usage fees, internet, and cell phones)
- Physical plant work orders
- Memberships and subscriptions
- General purpose equipment
- General purpose computers, software, and computer supplies
- Hospitality

As described above, applicable academic administrative costs are treated as direct costs for experiment station, extension and federal formula grants.

Unlike Circumstances Guiding Principles

Generally, an unlike circumstance is defined as an activity/use of a cost item which is substantially greater in amount or different in purpose than the normal use of that cost type.

Specifically, 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 before consideration:

- 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,
- 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.

Direct Cost Justification and Documentation

The Principal Investigator shall submit a completed direct charge justification form and receive approval from the Dean of Applied Research before any normal indirect cost may be direct-charged to a federal sponsored agreement or federal formula grant.

Proposal Stage – Direct charge justification shall be submitted along with the completed proposal package. When approvals are received during the proposal stage, a subsequent justification form during the post award stage is not required.

For sponsors requiring a budget and/or budget narrative for proposals, the cost must be specified in the proposed budget of the sponsored agreement and/or the unique circumstances requiring direct charging are justified in the proposal narrative. In these cases, the sponsoring agency must approve (i.e. does not specifically disapprove) the direct charging of the cost as part of the sponsored agreement's award documentation.

Post-award Stage – A direct charge justification shall be submitted and approved before any normally indirect cost may be direct charged if that cost was not originally approved as an unlike circumstance as part of the proposal process.

Record Retention – Approved justification forms shall be considered supporting documents of a federal sponsored agreement and will be retained centrally. Federal record retention and access requirements apply.

Computing devices

Computing devices are classified under materials and supplies and may be directly charged to a sponsored project if the following conditions are met:

a) Devices are essential to the project; and
b) Allocable to the project

The justification for such costs is to be included in the proposal.

If such costs were not anticipated at the time of proposal, subsequent direct charging of these expenses is allowable as long as these devices are essential and allocable to the project. Back up documentation must be maintained by the department and such documentation to be retained per the University's record retention policy.

Direct Charging of Administrative Staff

Administrative Salaries are allowable as a direct charge to federal projects, as long as the following conditions are met:

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

In addition to the federal guidelines that specify the above, individual sponsor guidelines and requirements and waivers surrounding the above are also applicable.

In order to ensure that such guidelines are followed, Direct Cost Justification Forms will be required prior to charging of such administrative salaries before the proposal is submitted and the justification for all such salaries should be included in the budget justification of the proposals where administrative work is anticipated.

If the work of the administrator was not anticipated at the time of proposal, then approval should be requested from the Dean of Applied Research prior to direct charging of these salaries onto the project. At times prior approval may need to be obtained from sponsors.

Unallowable Costs and Activities (Direct or Indirect costs)

Unallowable costs and activities must be identified and excluded from any billing, claim, or proposal submitted to the federal government. Unallowable costs must be classified using the appropriate expense account to meet the federal standard. The following examples of unallowable costs cannot be charged to federal sponsored agreements either as a direct cost or as part of the F&A rate.

- Alcoholic beverages
- Donations and contributions
- Fines and penalties
- Goods and services for personal use, such as automobiles
- Memberships in any civic or community organization
- Bad debt expense
- Entertainment
- First class travel
- Housing and personal living expenses for officers of the institution
- Sponsor-agreement specific unallowable costs, i.e. salary above a cap

In addition to the specific costs listed above, the costs associated with certain activities are unallowable on sponsored agreements and must be separately accounted for. Examples of unallowable activities are:

- Alumni activities
- Fundraising activities
- Losses on sponsored agreements
- Activities to prosecute claims against the federal government
- Malpractice insurance that does not involve human subjects
- Commencement and Convocation activities
- Investment management activities
- General public relations activities
- Defense and prosecution of criminal and civil proceedings
- Selling and marketing activities

Responsibilities

Principal Investigators shall ensure that all direct costs estimated and charged to a sponsored agreement are monitored and reviewed in accordance with this policy.

Deans, Department Chairs, and Directors shall ensure that this policy and associated procedures are implemented within their respective unit(s). The implementation of the policy shall include but is not limited to:

- Training is obtained by applicable employees such as Principal Investigators, staff, and administrators
- Effective internal controls are instituted to ensure compliance with this policy

Unit Administrators shall review proposals, and monitor sponsored project expenditures for compliance with this policy. Unit administrators shall provide policy and budgetary guidance to principal investigators.

The Dean of Applied Research shall review proposals, awards and expenditures for compliance with this policy and the sponsor's terms and conditions. The Dean shall review and approve cost justification forms. The Dean shall provide clarification and training on this policy and related procedures.

Staff Accountant (SA) shall review sponsored accounts for typical F&A costs and provide unit administrators with quality assurance reports and discuss corrective actions. SA shall review and approve cost justification forms for federal formula grants. SA shall provide clarification and training on this policy and related procedures.

Definitions

Account: A chart field in the Chart of Accounts that categorizes the nature of the transaction as a specific type of revenue, expense, asset or liability.

Direct Costs: Direct costs are 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 activities of the institution. Direct costs identified with sponsored agreements include applicable cost share and match.

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

Federal Formula Grant: Federal funding for which the allocation methodology is strictly determined in federal statute or regulation. University examples of federal formula grants are the Hatch, McIntire-Stennis, Multi-State, Animal Health, and Smith Lever Acts for Agricultural Research and Extension purposes.

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

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.

Indirect Costs: Indirect costs are defined in federal guidance as "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, an instructional activity or any other institutional activity." They are also called as "facilities and administration." and are comprised of a number of components. "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."

Major Project: As defined by applicable federal guidance, a Major Project is 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 those that are administratively intensive and are not necessarily defined by the amount of funding.

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.

Reasonable Cost: A cost may be considered reasonable if the nature of the goods or services acquired or applied and the amount involved reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.

Review: A process whereby transactions are assigned as a direct, indirect, or unallowable cost per the federal regulations, sponsored agreement, and University policies.

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 type.

Contacts

Questions related to the daily operational interpretation of this policy should be directed to:

Dean of Applied Research

(414) 277-7416

The Dean of Applied Research is the official responsible for the interpretation and administration of this policy. He/she will refer issues related to finance to the Vice President of Finance as appropriate.

Related Documents/Policies

NIH Grants Policy Statement

http://grants.nih.gov/grants/policy/nihgps_2011/index.htm