

# CHARGING PRACTICES FOR FEDERALLY FUNDED GRANTS AND CONTRACTS

2009  
(Revised)



UNIVERSITY OF CALIFORNIA  
DAVIS

# CONTENTS

Introduction.....	1
Standards for Financial Management .....	2
Is the Cost Allowable? .....	3
Allowability of Costs – Selected Examples.....	4
Unallowable Activities.....	7
Allocating Direct Costs.....	8
Cost Transfers .....	11
Identifying Direct vs. F&A (Indirect) Costs .....	12
Determining Cost Classification .....	12
Program Specific Administrative Support.....	13
Core Administrative Support .....	13
Implementing Cost Accounting Standards (CAS).....	14
Compensation for Personal Services – Payroll.....	14
Effort Reporting .....	15
Cost Sharing.....	16
Non-Payroll Costs – Selected Examples.....	17
Project Cost Overruns .....	19
Recharge Costing Process.....	20
Determining Cost Allowability and Classification .....	21
Index .....	22

## UC DAVIS

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*This guide provides the user with an overview of the costing policies at UC Davis as described in our disclosure statement. It gives examples of allowable and unallowable costs to federally funded contracts and grants and helps you to decide if allowable costs can be charged directly or are included in indirect costs.*

*Copies of Circular A-21 and Circular A-110 are available on the UC Davis Extramural Accounting home page:  
<http://accounting.ucdavis.edu/EX/>.*

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## INTRODUCTION

In recent years, Congress has become concerned with the costing practices under federally funded research at colleges and universities. To address these concerns, the Office of Management and Budget (OMB) has made several revisions to Circular A-21 (Cost Principles for Educational Institutions for Grants, Contracts, and Other Agreements).

Circular A-21 sets forth the principles for determining costs (direct, indirect, allowable, and unallowable) applicable to federally sponsored projects and acceptable allocation methodologies. These principles apply not only to the direct charges, but also to all charges included in the calculation of the indirect cost rate. That is, the costs of facilities, departmental and central administrative units, operations and maintenance, libraries, and etc. Therefore, these principles affect virtually every unit on campus.

In addition to OMB, the Cost Accounting Standards Board (CASB), which has jurisdiction over contracts with the federal government, has issued Cost Accounting Standards (CAS) for colleges and universities. OMB has incorporated CAS into Circular A-21, thereby applying the standards also to grants.

Currently commercial firms contracting with the federal government must comply with 22 cost accounting standards. Only four of these standards, which deal with the consistent treatment of costs, issued by CASB in 1995 are currently applicable to educational institutions. The four CAS standards are:

- 501 - Consistency in Estimating, Accumulating, and Reporting Costs - In order to permit comparisons of estimates to actual costs, this standard requires that the expenditure classifications used to estimate costs in contract and grant proposals be consistent with those used to accumulate and report costs
- 502 - Consistency in Allocating Costs Incurred for the Same Purpose - This standard requires that costs incurred for the same purpose, in like circumstances, be treated consistently as either direct or indirect costs.
- 505 - Accounting for Unallowable Costs - This standard requires that unallowable costs be identified and accounted for separately.
- 506 - Cost Accounting Period - This standard requires the consistent use of the same cost accounting period for purposes of estimating, accumulating, and reporting costs.

As a recipient of federal awards, UC Davis is required to file Cost Accounting Standards Disclosure Statement (DS-2) identifying accounting practices, policies, and procedures for assigning costs to federally sponsored and federal flow-through programs, and to attest to the consistent treatment of those practices. In addition, UC Davis is required to prepare indirect cost rate proposals that are in compliance with the guidelines set forth in OMB Circular A-21.

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## STANDARDS FOR FINANCIAL MANAGEMENT

Circular A-110 (Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations) provides standards for obtaining consistency and uniformity among federal agencies in the administration of grants and agreements.

The Financial Management Standards section of Circular A-110 requires that financial management systems assign the financial costs (and any income) to the program activities and develop unit costs wherever possible. An acceptable financial management system meets minimum standards if it:

1. Contains accurate, current, and complete financial results of each sponsored project;
2. Contains records that adequately identify the source and application of funds;
3. Maintains effective control and accountability, including adequate safe guarding of assets;
4. Includes comparisons of actual results to budgets on a regular basis;
5. Contains written procedures to minimize the time between the receipt and disbursement of funds;
6. Contains written procedures for determining reasonableness, allocability, and allowability of costs; and
7. Includes accounting records (including cost sharing) with supporting documentation.

If you have questions about pre-award budgets, consult appropriate staff in the Office of the Vice Chancellor for Research. A list of staff names, phones and e-mail addresses can be found in their home page: <http://research.ucdavis.edu/> or telephone (530) 754-7679.

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## IS THE COST ALLOWABLE?

*Circular A-21 provides standards to determine which costs may be charged to federally sponsored projects.*

To determine if a particular cost is allowable and can be charged either directly or indirectly to a sponsored project, apply the “prudent person” test. Ask yourself the following questions. If the answer to any of them is “no,” the cost should not be charged to the project:

Tests for reasonableness:

1. Is the type of cost generally accepted as necessary for the operation of the institution or the performance of the sponsored agreement? For example, compensation for the time spent by the graduate student researcher on the project would generally be accepted as necessary while the purchase of a pleasure cruise would be generally considered as not necessary.
2. Were the requirements such as “arms-length” bargaining; federal, state, and local regulations; and award-specific terms and conditions met? For example, if you purchased goods from a relative or friend’s business, you may not have “bargained” as you would have with somebody you did not know.
3. Did the individuals involved act with prudence under the circumstances? Would you be comfortable explaining to someone outside the university community how their tax dollars were spent on this item?
4. Is the cost consistent with your institution’s policies, procedures and practices? For example, if the institution normally does not provide overtime pay to certain classes of employees, you may not charge overtime worked by such employees to a sponsored project.

Total costs of a sponsored project are the direct costs plus the indirect costs minus any applicable credits that result from the project’s activities. Applicable credits are receipts or similar transactions that offset or reduce direct or indirect cost items. Typical examples are purchase discounts, rebates, or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges.

*Circular A-21 should also be used as a guide in pricing of fixed-price contracts where costs are the basis for the price.*

Sound judgment in incurring a cost chargeable to a federal award must be exercised. The cost must be necessary for the performance of the sponsored agreement. 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.

Relative benefit must be approximated through the use of reasonable methods. Costs should be allocated to the users in proportion to the benefits received. For example, the cost of repair on a piece of equipment that is being used by three different projects should be divided among the three projects.

If there appears to be a disagreement between Circular A-21 and a specific agreement, you should follow the stipulations in the agreement.

## Allowability of Costs – Selected Examples

We provide the following cost categories list as a guide to help determine whether a specific cost is allowable either as a direct or indirect charge to a sponsored agreement. For a more extensive clarification of these items or of those not listed here, please refer to Section J of Circular A-21.

**Advertising and public relations** costs are generally only allowable if they are necessary to meet the specific requirements of the sponsored agreement.

**Alcoholic beverages** are unallowable.

**Commencement and convocation** costs are unallowable, except as provided for in Section F.9 of Circular A-21.

**Compensation for personal services** (salaries, wages, and fringe benefits) include all amounts that are earned by the employee during the specified period. If the amount is not paid within the period, there must be an obligation for the institution to pay the amount (e.g. accrued vacation time). The following conditions must be met in order for the compensation to be allowable:

*See page 12 for more about compensation (payroll) as a direct or indirect cost.*

1. Costs must conform to the established policies of the institution.
2. Institutional policies must be consistently applied.
3. Allocation of charges for work performed directly on sponsored agreements (and for other work allocable as indirect costs) are determined and supported by an “acceptable method,” which must:
  - a) Be incorporated into the official records of the institution,
  - b) Reasonably reflect the activity for which the employee is compensated by the institution,
  - c) Encompass both sponsored and all other activities on an integrated basis,
  - d) Use an after-the-fact confirmation method so that costs distributed represent actual effort expended,
  - e) Provide for an independent internal evaluation to ensure the system’s effectiveness and compliance with the above standards.

**Contingency provisions** made for possible future events are unallowable (e.g., you cannot charge a provision for future earthquake damage.)

**Defense and prosecution** of criminal and civil proceedings, claims, appeals, and patent infringement are generally unallowable, except in certain specific situations with the approval of the federal agency.

**Donations and contributions** are unallowable either as a direct or indirect cost (except for depreciation or use allowances on donated assets). However, the value of donated services and property may be used to meet cost sharing or matching requirements. Donations or contributions made by the institution are unallowable.

**Employee morale, health, and welfare** costs are allowable if they are in accordance with the institution’s established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance.

*more examples –  
allowability*

**Entertainment** costs, including amusement, diversion, and social activities and any costs directly associated with such activities; such as tickets to shows or sports events, meals, lodging, rentals, and gratuities are unallowable.

**Equipment** for special purpose items are generally allowable as direct charges, as long as any items having a unit cost in excess of \$5,000 are approved in advance by the sponsoring agency. Equipment and capital expenditures for general purposes are unallowable as direct charges, unless approved by the sponsoring agency.

**Executive lobbying** costs are unallowable if incurred while attempting to influence federal executive branch employees to give consideration, or to act regarding a sponsored agreement or a regulatory matter on any basis other than the merits of the matter. (See Unallowable Activities section on page 7.)

**Interest and investment management** costs are unallowable except for costs related to the physical custody and control of moneys and securities, and interest paid to an external party for certain assets used in support of sponsored agreements.

**Labor relations** costs incurred in maintaining satisfactory relations between the institution and its employees; including costs of labor management committees, employees' publications, and other related activities are allowable.

**Losses** on sponsored agreements or contracts are unallowable.

**Maintenance and repair** costs for necessary maintenance, repair or upkeep of property (including federal property unless otherwise provided for) which neither add to the permanent value of the property or appreciably prolong its intended life but keep it in an efficient operating condition, are allowable.

**Memberships, subscriptions** and professional activity are generally allowable. Memberships are allowable if they are institutional memberships in business, technical, or professional organizations. Costs of the institution's subscriptions to business, professional and technical periodicals are allowable. Costs of meetings and conferences, when the primary purpose is the dissemination of technical information, are allowable. Costs of memberships in civic, community or social organizations are unallowable.

**Pre-agreement** costs incurred prior to the effective date of the sponsored agreement are unallowable unless approved by the sponsoring agency.

**Professional services** costs are allowable if they are reasonable and not contingent upon recovery of the costs from the federal government. Costs for legal services are generally unallowable.

**Profits and losses** on the disposition of plant equipment or other capital assets, including sale or exchange of either short term or long-term investments, are unallowable.

*more examples -  
allowability*

**Proposal costs** are the costs of preparing bids or proposals on potential government and non-government sponsored agreements, including the development of data necessary to support the institution's bids or proposals. Costs of the current accounting period for both successful and unsuccessful proposals normally should be treated as indirect costs.

**Recruiting** cost of 'help wanted' advertising, travel costs of applicants for interviews for prospective employment, and relocation costs incurred incident to recruitment of new employees, etc. are allowable if they are part of a well managed recruitment program.

**Rental** cost of buildings and equipment are generally allowable as long as specific criteria are adhered to. See Section J.43 of A-21.

**Royalties** and other costs for use of patents, necessary for the proper performance of the sponsored agreement, are allowable subject to certain conditions. See Section J.44 of A-21.

**Sabbatical leave** costs for performance of graduate work or sabbatical study, travel, or research are allowable.

**Scholarships and student aid** costs are allowable only when the purpose of the sponsored agreement is to provide training to selected participants and the charge is approved by the sponsoring agency.

**Selling and marketing** costs for institutional products or services are generally unallowable.

**Severance** pay is allowable in certain circumstances. See A-21, Section J.10.

**Student activity** costs incurred for intramural activities, student publications, student clubs, and other student activities, are unallowable, unless specifically provided for in the sponsored agreement. (See unallowable activities section on page 7.)

**Travel** costs are allowable when incurred for transportation, lodging, subsistence, and related items by employees on official business of the institution. The method for determining the costs may be on actual, per diem, or mileage basis as long as the institution has travel policies and practices which are consistently applied to all travel activities and result in reasonable charges.

*See more about  
travel on page 18.*

Commercial air travel costs in excess of the lowest available discount airfare is unallowable except:

- when such accommodations would make the travelers go out of their way,
- make them travel during unreasonable hours
- excessively prolong or increase the duration of the trip,
- cause other costs (e.g., lodging) that would cost more than the savings, or
- offer accommodations not reasonably adequate for medical needs of the traveler.

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## UNALLOWABLE ACTIVITIES

CircularA-21 lists certain costs as unallowable to federally sponsored programs as either direct or indirect costs. These costs can encompass expenses such as salaries, benefits and supplies. Departments should establish separate, non-federally sponsored accounts to account for the costs associated with these activities. They are:

- Cost of legal proceedings - Cost of defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement.
- Housing and personal automobile allowance for executives.
- Lobbying costs, include but are not limited to lobbying, publishing, and preparing materials intended for influencing legislation.
- Selling and marketing university goods and services including marketing and licensing university copyrights and technology.
- Alumni activities.
- Fundraising and development.
- Student activities - includes costs of intramural activities, student publications, student clubs, and other student activities.
- Ongoing advertising and public relations activities - the cost of advertising and public relations designed solely to promote the institution.

*Allocation is the process of assigning a cost, or a group of costs, to one or more cost objectives in reasonable and realistic proportion to the benefit provided or other equitable relations.*

*A cost objective may be a major function of the institution, particular service or project, a sponsored agreement or an indirect cost activity.*

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## ALLOCATING DIRECT COSTS

### Direct Costs Allowability and Allocability

Under OMB Circular A-21, Section D.1, “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 assigned to such activities relatively easily with **a high degree of accuracy.**” In addition, under A-21, Section D.2, when applying the direct cost concept to sponsored agreements, “**identification with the sponsored work** rather than the nature of the goods and services involved is the determining factor in distinguishing direct from F&A cost of sponsored agreements”.

A cost is allocable to a specific agreement if the answers to the following questions are “yes.”

1. Can costs be easily allocated in proportion to the benefits derived by a specific project? For example, chemicals purchased for use on a specific project would only benefit that project. However, restocking general chemical supplies used for a variety of purposes would benefit many projects and may not be easily allocated to individual projects.
2. Is the cost incurred solely to advance the work under the sponsored agreement? For example, travel costs incurred for the principal investigator to obtain data on the topic of the research would generally qualify, but travel costs to attend a conference on another topic would not.
3. Does the cost benefit both the sponsored agreement and other work of the institution in proportions that can be approximated through the use of reasonable methods? For example, if you purchased a specific chemical, half of which was going to be used on a research project and half in chemistry classes; half the cost could be allocated to the sponsored project and half to the instruction function.
4. Is the cost necessary to the overall operation of the institution and deemed assignable in part to sponsored projects? This will generally apply more to indirect costs than direct costs. For example, payroll services are normally necessary for any institution and do benefit sponsored projects. Hence, these costs would be allocated to sponsored projects through the indirect cost process.
5. Is the cost consistently treated according to generally accepted accounting principles as applied via the institution’s policies and procedures?
6. Is the cost in compliance with the award, agency, and Circular A-21 requirements?

### Direct Cost Allocation

Under OMB Circular A-21, Section C.4.d(3), “If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects 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, then...the costs may be allocated or transferred to benefited projects on any reasonable basis...”

## Direct Cost Allocation Documentation

In practice, the concept of “high degree of accuracy” and “identification with the sponsored work” can initially be based on an estimate as long as the estimate(s) is supported by detailed cost allocation records and documentation demonstrating a traceable cause and effect relationship or logic and reason. As a cost accounting document, OMB A-21 requires that these concepts are grounded on cost accounting and generally accepted accounting principles which require tests of reasonableness, tests for appropriate documentation, and tests to support that an equitable level of support has been provided to a sponsored project in proportion to the level the project is charged. In other words, when more than one sponsored project receives benefit from an allocable direct cost, documentation must be available detailing:

- The total amount of costs being allocated,
- The percentage of allocable costs to each sponsored project,
- How the costs benefit the project(s) and proportion of cost each project will bear, and
- The rationale that support and justify the amount allocated to the project(s).

## Examples of Direct Cost Allocation Methodology and Documentation

### **1. Percentage estimate based on distribution of historical actual use documentation by project.**

A direct cost allocation estimate based on an historical use base study is the best means for allocating direct cost charges. This methodology completely satisfies essential basic considerations required by federal guidelines when allocating costs to a specific cost objective(s), i.e., in accordance with benefits derived and with a high degree of accuracy. Use study data can be obtained through use records, statistical sampling, or other means to demonstrate actual use over a period of time.

***Example:*** *A new enhanced spectrometer is needed to replace an older outdated one. The equipment item will benefit 3 sponsored projects. Based on usage data gathered, maintained, and documented during the use of the older spectrometer, sponsored project A used the old spectrometer 85 percent of the time it was operated. Use for the remaining 15 percent of the old spectrometer is based on actual use documentation on hand and is split 5 percent to sponsored project B and 10 percent to sponsored project C.*

*In this case, the cost of the enhanced new spectrometer is allocated to each sponsored project based on actual use documentation supporting the percentage use of the old spectrometer in support of each sponsored award. While it is an estimate, the direct cost allocation basis is grounded on a documented and traceable cause and effect relationship and the cost allocation can be supported by logic and reason.*

## **2. Estimate based on documented survey of anticipated usage by each project by month and year.**

If historical data is not available to distribute equipment cost, then a documented survey or estimate detailing a rationale explanation of spectrometer equipment usage for each sponsored project must be developed and documented for use in allocating spectrometer equipment cost.

***Example:** Using the same spectrometer scenario above and if historical usage data is not available, equipment costs should be allocated based on the following documentation obtained to support a traceable cause and effect relationship:*

- *Explanation for why equipment must be split funded.*
- *Percentage and amount of equipment that will be allocated.*
- *Project objectives and relationship to equipment cost that each project will bear.*
- *Explanation for how cost will be allocated and why is the best method for allocating cost. The allocation method could be estimate of the percent use amount (by day, week, month, etc.) each sponsored project will require. Another method could be an estimate based on the number of hours required by each project based on the total number of hours the equipment item is available for use. It is important that written documentation exists that is logical and reasonable supporting the allocation methodology selected.*

## **3. Percentage of salary and wages applicable to each sponsored project to be charged.**

The third methodology using a percentage of salary and wage base for allocating direct equipment costs to sponsored projects should be used only if the previous two methods or some other reasonable method cannot be developed and employed. This approach is a default methodology. However, if the methodology can be supported by the type, classification, or level of employee charged to each project and a logical and reasonable explanation linking employee category with equipment use shows a clear and direct relationship, this method may be appropriate.

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## COST TRANSFERS

Any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements in order 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. (See A-21 C.4.b.)

In accordance to *BFB A-47* and *UC Davis Policy and Procedure Manual Section 330-63, Expenditure Adjustments (Cost Transfers)*, once an expense entry has been recorded in an account in the general ledger, it is appropriate to make expenditure adjustments only in the following situations:

- To correct an erroneous recording
- To record a change in decisions made originally as to the use of goods or services
- To redistribute certain high numerical but small individual and/or minor charges

All adjustments of expenditures shall meet the following criteria:

- Must relate to individual items of expenditures incurred by the unit requesting the adjustment
- Must contain a reference to the invoice, payroll, or other disbursement document(s) which initiated the original direct charge
- Must be in the same amount originally recorded in the University general ledger
- Must be fully explained and justified
- Must have written approval by the PI, department head, or other program official
- Must be recorded via the appropriate form
- Must be reviewed and approved by Extramural Funds Accounting
- Must be recorded in the general ledger within 120 days of the original charge

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## IDENTIFYING DIRECT VS. F&A (INDIRECT) COSTS

*Direct costs are those costs that can either be identified with a particular activity or that can be directly assigned among various activities easily and with a high degree of accuracy and without an inordinate amount of accounting.*

*Facilities and Administrative (F&A) or Indirect Costs are those incurred for the benefit of numerous projects, functions or activities, but which cannot be identified directly to specific projects, functions or activities with relative ease and with reasonable accuracy and without an inordinate amount of accounting.*

After a cost has been determined to be allowable, you must then determine whether it qualifies as a direct charge to a sponsored project. All other allowable costs are then considered indirect charges that will be accumulated in the institution's indirect cost pools.

Typical costs charged directly to a sponsored agreement are:

- Compensation of employees for performing work under the sponsored agreement;
- Related fringe benefit costs;
- Costs of materials consumed or expended while performing the work; and
- Other items of expense incurred for the sponsored agreement.

The cost of materials from stock, services rendered by specialized facilities, or other institutional service operations may be included as direct costs if they meet the criteria previously listed.

Typical costs charged indirectly to sponsored agreements through the F&A rate include:

- Administrative and clerical salaries provided at the departmental and central level,
- Depreciation on buildings and equipment,
- Utility consumption,
- Operations and maintenance costs, and
- Library costs.

### Determining Cost Classification

Allowable activities associated with federally sponsored contracts and grants may be charged as direct or indirect costs. If the allowable cost qualifies to be charged directly to the contract or grant, charge it to the appropriate award's account. If the allowable cost does not qualify to be charged directly, charge it to a department operating account that will become part of the indirect cost pool.

If a particular activity is unallowable (see page 7) for unallowable activities), charge it to a designated non-sponsored account for unallowable activities. If a particular expense is unallowable (such as alcohol, entertainment, etc.), charge it to an unrestricted non-federal fund using an object code for unallowable expenses.

## Program Specific Administrative Support

*Extensive administrative program support, significantly greater than the routine level provided by academic department administrative and clerical staff, may be charged directly to a sponsored project if the activity is approved by the funding agency and adequate documentation is available to support the direct charge.*

*See page 17 for a description of other administrative costs.*

*Units charging a reduced overhead cost rate, in which the DA (department administration costs) has been omitted, may direct charge administrative salaries. When this is the case, departments are urged to justify these costs in the proposal(s) and include them in the project budget.*

Direct charging of administrative and clerical salaries may be appropriate for the following projects:

- Large, complex programs such as general clinical research centers and program projects;
- Projects involving extensive data accumulation, analysis and entry such as epidemiological studies and clinical trials;
- Projects that require making meeting arrangements for a large group of participants;
- Projects whose principal focus is the preparation of manuals and large reports (excluding routine technical reports); and
- Geographically inaccessible projects.

Examples of program specific support include, but are not limited to, the following:

- Performing administrative functions beyond the routine (e.g. preparing a mass mailing),
- Project specific programming and data entry,
- Gathering research data,
- Conducting project interviews,
- Performing project laboratory activities, and
- Conducting a project telephone survey.

These examples are not exhaustive nor are they intended to imply that direct charging of these costs would always be appropriate. Where direct charges are made, care must be exercised that all costs incurred for the same purpose and in like circumstances are consistently treated as direct costs for all activities. For example, if the costs associated with organizing a conference are charged directly to a sponsored program, then the costs associated with organizing conferences for instruction should be charged to an account that will be included in the instruction cost pool base in the indirect cost calculation. See A-21, Appendix C.

## Core Administrative Support

The following activities represent traditional administrative and clerical activities that are considered indirect and should not be charged to sponsored projects since they cannot be directly identified with a specific project with relative ease:

- Administration and support services benefiting common departmental activities,
- Contracts and grants analysis,
- Personnel functions,
- Accounting and budgeting functions,
- Routine travel planning,
- Newsletter/brochure preparation,
- Correcting and organizing data,
- Processing and tracking routine purchase orders, and
- Maintaining databases.

It should be noted that the development of proposals and associated preparation activities, including typing, copying, and mailing are treated as indirect costs and should be considered part of departmental administration.

*Appendix A within A-21 reflects the CAS requirements, along with the purpose, definitions and techniques for applications, all of which are authoritative.*

*Federal flow-through funds are awarded by a non-federal sponsor but originated from federal sources.*

*Administrative support is usually considered core support and is an indirect cost. It can be program specific and direct charged. See page 13 for further guidance.*

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## **IMPLEMENTING COST ACCOUNTING STANDARDS (CAS)**

The previous sections described the various federal regulations which cover the financial administration of research awards. This section discusses some specific methods of implementing CAS at UC Davis.

### **Compensation for Personal Services – Payroll**

**Faculty and Professional:** Salaries and wages of faculty and professional employees paid at the university's approved rates should be charged in proportion to the level of effort for each activity (e.g., instruction, organized or university research, other sponsored activities, patient care, etc.). Direct charges to a sponsored project are allowable to the extent they reflect the level of effort expended on the project and are documented on the university effort reporting system.

- The university uses the Personnel Activity Reporting (PAR) system to document effort performed on federal projects. Refer to the effort reporting section on page 15 for details.
- Effort in support of general departmental activities (e.g., office of the dean/ department chair, other departmental committees, etc.) should be charged to an account which will be included in departmental administration in the indirect cost calculation. Fringe benefits in accordance with established university policies are allowable and are charged to projects in proportion to salary distribution.
- Regardless of the method used to apportion salaries, it is recognized that in an academic setting, teaching, research, and service administrations are often inextricably intermingled. A precise assessment of factors that contribute to costs is not always feasible, nor it is expected; therefore, allocation based on reasonable estimates is acceptable.

**Administrative and Clerical:** Salaries and wages of administrative and clerical staff should generally be treated as indirect costs and included in departmental administration. Direct charging of these costs may be appropriate when the nature of the work performed on a particular project requires an extensive amount of administrative or clerical support significantly greater than the routine level of such services provided by the academic departments. The costs must be attributable to the project and the circumstances must be justified to the satisfaction of the awarding agency.

## Effort Reporting

Effort reporting, required by Circular A-21, certifies effort spent by all employees whose salaries are charged directly to federal and federal flow-through funds. The Personnel Activity Reporting (PAR) system provides the basis for certifying salaries charged to accounts in accordance with the relative activity applied to various programs and projects. The system's reports reflect activity applicable to each sponsored agreement and to each fund source associated with other institutional activities.

- The reports reflect after-the-fact reporting of the percentage distribution of employee activity. Charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences are found.
- Short-term (such as one or two months) fluctuations between workload categories need not be considered as long as distribution of salaries and wages is reasonable over the longer term, such as an academic period.
- Faculty and professional employees must complete a PAR form quarterly (three month periods ending March 31, June 30, September 30, and December 31) that is certified by the employee or a responsible academic official having firsthand knowledge of the work performed.
- Non-academic employees must complete a PAR form quarterly (three month periods ending March 31, June 30, September 30, and December 31) that is certified by the employee or a supervisor, business manager, or principal investigator verifying that the work was performed and the distribution of effort is reasonable.
- If the percent of effort on any federal funds decreases, the department must make a payroll adjustment using the on-line time reporting system (OPTRS) and reflect the revised effort on the PAR form. A payroll expenditure transfer form must be completed and appropriate signature obtained to substantiate the transfer in accordance to PPM 330-63, *UC Davis Policy & Procedure Manual – Expenditure Adjustments*.
- The costs charged to each fund may not exceed the effort reported by 5 percentage points or more; however, the effort certified for each sponsored project may exceed the amount charged to that project.
- UC Davis is not required to provide additional support or documentation other than the PAR for the effort charged to federally sponsored agreements.

## Cost Sharing

*Cost sharing is any program or project cost that is not borne by the sponsoring agency.*

Cost sharing can be either mandatory (stipulated as a condition of the agreement) or voluntary committed (discretionary use of matching funds from gifts, departmental funds, etc.).

The cost sharing section of Circular A-110 (Subpart C.23) permits all contributions which further the program objectives to be used for meeting cost sharing or matching requirements when the costs are:

1. Verifiable from the records of the institution;
2. Not used as cost sharing or matching on another federal project;
3. Necessary and reasonable for the conduct of the project;
4. Allowable under the applicable cost principles;
5. Not funded by the federal government (except where provided by statute);
6. Included in the program budget when required by the sponsoring agency, and
7. In conformance with the requirements listed in Circular A-110.

Cost sharing must be accumulated and reported at the end of each budget year and is used to support the development of UC Davis' F&A rate proposal. Extramural accounting staff will advise department staff on which agreements contain reportable cost sharing so they can collect and report these items.

Unrecovered indirect costs may only be used to meet cost sharing or matching requirements with the approval of the sponsoring agency. There are specific requirements as to the valuation of donated property, equipment and volunteer services. If you are using any of these to meet your cost sharing or matching requirements, consult Circular A-110, Subpart C.23.

## Non-Payroll Costs – Selected Examples

The cost items in this section are some of the more common departmental costs at UC Davis. The review of these cost items is provided as general guidance only. It should be emphasized that allowable costs incurred in like circumstances should be consistently charged as direct or indirect. For example, if a department/unit direct charges long distance telephone charges to a federally sponsored program, all other long distance charges should be charged directly to an instruction, patient care, clinical, or departmental administration, etc., account.

*A benefiting activity in this publication refers to an activity that supports the common or joint objectives of the institution (e.g., research, instruction, departmental administration, etc.) and is part of the indirect cost pool.*

**Advertising** costs are normally charged directly to a sponsored project if the purpose of the cost is for recruitment of personnel, procurement of goods and services, disposal of scrap or surplus materials, or other specific purpose necessary to meet the requirements of the contract or grant.

**Copying** costs are normally treated as indirect costs. They may be charged directly to the sponsored project where there is a need for significant amount of duplicating and the cost has been approved in the project budget.

**Equipment** such as general purpose equipment should normally be charged indirectly, except for the unusual situation where that equipment is needed for a specific project(s), and is not used for any other purpose.

**Laboratory supplies** that are easily allocable to a specific project are normally charged directly to the sponsored project. If laboratory supplies are not easily identified with a specific project, they are charged indirectly.

**Leases and rentals** such as building lease costs or equipment lease/rental costs can be charged directly to a sponsored project (if approved by the sponsoring agency) or other benefiting activity depending on the circumstances.

**Meetings and conferences** costs whose primary purpose is the dissemination of technical information, can be directly charged to a sponsored project where specifically provided for in the project agreement.

**Memberships and subscriptions** costs are generally allowable as indirect costs charged to departmental administration. Memberships are allowable if they are institutional or individual memberships in business, technical, or professional organizations. Costs of the institution's subscriptions to business, professional and technical periodicals are allowable. Occasionally a membership is required by a specific project. If so, it can be charged directly to that project with appropriate justification and agency approval. Costs of memberships in civic, community or social organizations are unallowable.

*See page 5 for additional information about memberships and subscriptions.*

**Office supplies** should be provided by the department and should normally not be charged directly. However, an extensive amount of office supplies, significantly greater than the routine level, may be charged directly. Where these supplies are charged directly to a grant or contract, they must be identified in the proposal budget and approved by the funding agency.

*more examples –  
non-payroll costs*

**Postage** costs for ordinary and routine postage and mail stop charges are treated as indirect costs. Costs for mailing proposals are normally indirectly charged. Postage may be charged directly to a project if the costs are extraordinary and have been approved in the budget.

**Repairs and maintenance** for core service repairs and maintenance for state supported space in non-leased buildings are indirect costs. Special need services that are not covered by the core repair and maintenance services may be charged to the sponsored project or other benefiting activity, depending on the circumstances.

Repairs and maintenance costs for leased space receiving state operations and maintenance funding would normally be indirect costs. Repairs and maintenance costs for leased space that is not state supported should be charged to the sponsored project.

Repairs and maintenance costs for equipment, installed as part of a state-funded capital project or which is an integral part of a central building system, are indirect costs. Repairs and maintenance costs for all other equipment, fixed or moveable, may be charged to a sponsored project or other benefiting activity depending on the circumstances.

**Telephone** costs for basic line and equipment charges and local telephone services are normally treated as indirect costs. Long distance and fax charges should be charged to a sponsored project or other benefiting activity.

**Travel** costs which are incurred solely to further the work or disseminate information on a project should be charged directly to that project. Where multiple projects are involved, the costs should be allocated in proportion to the benefits received by each project.

**Utilities** should be charged indirectly except where the individual project requires an extraordinary amount of power. See A-21 Section F.4.a.

*See page 6 for  
additional  
information about  
travel.*

If you have any questions about the allowability of any cost on your project, please refer to Circular A-21 Section J.

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## **PROJECT COST OVERRUNS**

Costs that exceed the budget on a sponsored agreement should be tracked and accumulated. The excess costs (deficits) must be transferred to another, non-federal account having the same function as the account in which the overrun occurred. For example, if a cost overrun occurs on a research account, that cost should be transferred to another account that is specifically identified as research. Cost overruns must not be charged to a departmental administrative account that is included in the indirect cost pool calculation.

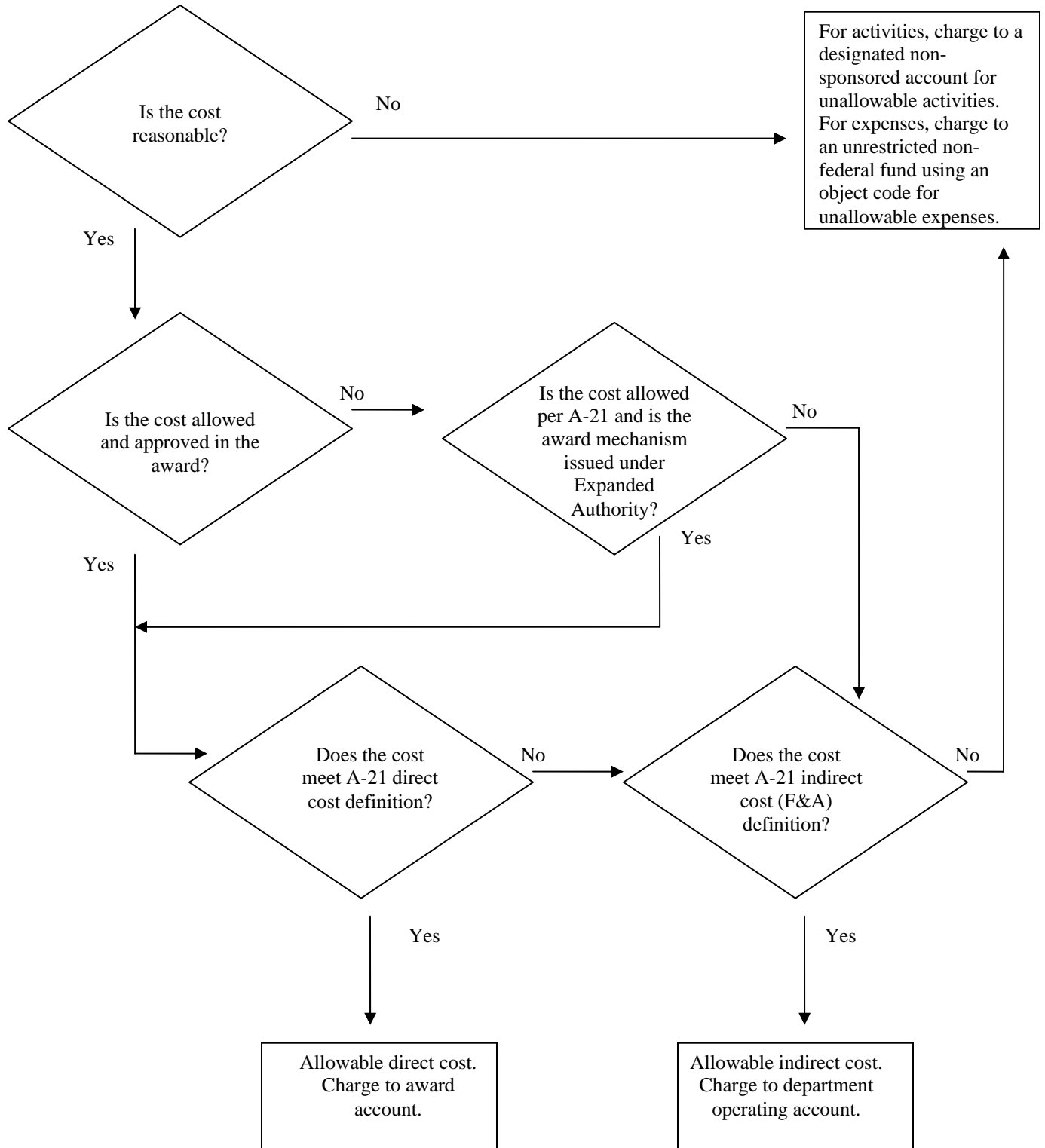
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## **RECHARGE COSTING PROCESS**

A recharge is the assessment and collection by one university unit for products or services furnished to another university unit. The campus planning and budget office has established policies and procedures for charging organizational units for support services that include all allowable costs associated with providing the products or services.

Recharge costs charged directly to a sponsored project are allowable as long as the department charging the project has followed the guidelines in the UC Davis Policy and Procedure Manual, Section 340, Rates, Recharges and Sales Activities, and the recharge rate has been approved by planning and budget staff. (See the campus web for the manual <http://manuals.ucdavis.edu/>.)

# DETERMINING COST ALLOWABILITY AND CLASSIFICATION



# INDEX

## A

Administrative and clerical salaries, 12, 13, 14  
Administrative Support, 13, 14  
    Core support, 13, 14  
    Program Specific, 13, 14  
Advertising, 4, 6, 7, 17  
    Ongoing, 7  
Alcoholic beverages, 4  
Allocating costs, 1, 3, 4, 8, 9, 10, 18  
Alumni activities, 7

## C

Circular A-110, 1, 2, 16  
Circular A-21, 1, 3, 4, 6, 7, 8, 9, 11, 13, 14, 15, 18  
Commencement and convocation, 4  
Compensation for personal services, 4, 14  
Contingency provisions, 4  
Copying costs, 13, 17  
Cost Allowability, 3, 4, 5, 6, 7, 8, 21  
Cost classification, 1, 12, 21  
Cost sharing, 2,4,16  
Cost Transfers,11

## D

Defense and prosecution costs, 4, 7  
Direct costs, 3, 8, 9, 12, 13  
Donations and contributions, 4

## E

Effort reporting, 14, 15  
Employee morale, health, and welfare, 4  
Entertainment, 5, 12  
Equipment, 3, 5, 6, 9, 10, 16, 17, 18  
Executive lobbying costs, 5, 7 *See also* Lobbying costs

## F

Facilities and Administrative (F&A Costs), 8, 12, 16, 21  
Faculty and professional salaries, 14, 15  
Fundraising and development, 7

## I

Interest and investment management costs, 5

## L

Labor relations costs, 5  
Laboratory supplies, 17  
Leases and rentals, 17

Legal proceedings cost, 5, 7  
Lobbying costs, 7  
Losses, 3, 5

## M

Maintenance and repair costs, 5, 18  
Meetings and conferences, 5, 17  
Memberships, 5, 17

## O

Office supplies, 17

## P

Payroll, 4, 8, 11, 14, 15  
Personnel Activity Reporting (PAR), 14, 15, *See also*  
    Effort Reporting  
Postage costs, 18  
Pre-agreement costs, 5  
Professional services costs, 5  
Profits and losses, 5  
Project cost overruns, 11, 19  
Proposal costs, 6, 13, 18  
Public relations activities, 4, 7

## R

Recharge costing process, 20  
Recruiting cost, 6  
Rental cost, 5, 6, 17  
Repairs and maintenance, 18  
Royalties, 6

## S

Sabbatical leave costs, 6  
Scholarships and student aid costs, 6  
Selling and marketing costs, 6, 7  
Severance pay, 6  
Standards for financial management, 2  
Student activity costs, 6  
Subscriptions, 5, 17

## T

Telephone costs, 17, 18  
Total costs, 3  
Travel costs, 6, 18

## U

Unallowable activities, 5, 6, 7, 12  
Utilities, 18