

Sponsored Programs Guidance “Cradle to Grave”



Cost Principles

Summary: Provides guidance for determining eligible costs and whether those costs are direct or indirect.

Cost principles for federally-sponsored programs typically pursued by Cooperative Extension personnel are outlined in detail in OMB Circular A-21, "Cost Principles for Educational Institutions." Cost principles assist investigators and sponsored program personnel in determining the costs that are applicable to grants, contracts, and other funding agreements. By following established cost principles, Cooperative Extension personnel are able to ensure proposals conform to federal guidelines and expenses can be justified in case of audit. It is assumed institutions receiving federal funding employ sound management practices and have generally accepted accounting systems in place to adequately document expenses. Cost principles do not attempt to dictate how projects are implemented or carried out, as institutions are expected to follow those philosophies and objectives dictated by their programs.

Calculation of Total Costs

The total cost of a project is defined as follows:

$$\text{Direct Costs} + \text{Indirect Costs} - \text{Applicable Credits} = \text{Total Cost}$$

As "Applicable Credits" are rarely encountered and difficult to anticipate during budget development, they will not be discussed in this document. For more information, refer to Section C.5 of OMB Circular A-21.

Eligible Costs

Overall guidance of cost principles can be summarized in the four tests that an expense must pass before it can be determined eligible for charging to a sponsored program. To be eligible, expenses must be:

1. Allowable
2. Allocable
3. Reasonable
4. Consistent

Any expense that fails one of these tests is likely ineligible for assignment to the project.

Allowable: For an expense to be allowable it must pass the tests to insure it is allocable, reasonable, and consistent. Allowable expenses must conform to limitations or exclusions outlined in the request for proposals, agency policy, and applicable OMB circulars; be adequately documented; and not used for cost sharing or matching under another federally-funded project. While a given request for proposals may include exclusions beyond those included in OMB Circular A-21, there are certain expenses that are prohibited by law and are unallowable under any grant. Alcoholic beverages, first or business-class airfare, entertainment, promotional items, and general advertising or public relations are all examples of unallowable expenses.

Allocable: An allocable expense is one that directly or indirectly benefits the sponsored project. Expenses can be considered allocable to a project if they are incurred specifically for the award; benefit the award but also benefit other institution programs; or are necessary for the overall operation of the institution and are assignable, in part, to sponsored projects. Allocable expenses must normally identify with a specific objective in a sponsored project.

Reasonable: Only those expenses that are reasonable both in terms of cost and

applicability to the project are eligible to be charged to a grant. Reasonable costs are those that do not exceed costs a prudent person in similar circumstances would incur. Considerations when determining if a cost is reasonable include whether the cost is necessary for performance of the requirements of the project; whether the purchase price is practical; whether proper purchasing procedures are followed when incurring the cost; and whether the cost is consistent with ethical business practices and institution policy.

Consistent: For a cost to be eligible under a sponsored program, it must be treated in a similar manner in other business practices of the institution. The test of consistency is most often applicable to determining if an expense is charged directly or indirectly to a project. Expenses can be either direct or indirect; however, they cannot be both. Furthermore, if an expense is normally treated as an indirect cost by the institution under its other business practices, it must be similarly treated under a sponsored program. Only in rare instances involving major projects with specific expenses above and beyond daily operations can the consistency requirement be waived (i.e., clerical staff assigned full-time to a sponsored project).

It should be noted that expenses cannot be utilized to cover budget shortfalls on other sponsored projects. Any expense must be applicable to the project for which it is specified, regardless of whether the institution has other agreements in place with the same sponsored program.

Direct Costs

Direct costs are those expenses that are clearly assigned to a sponsored project and can be identified with a high degree of accuracy. In determining direct costs, the purpose of the expense, not the nature of goods and services obtained, must be considered. If an expense passes the four tests, is determined to be an eligible cost, and is clearly necessary to complete the project objectives, in all likelihood it can be labeled as a direct cost. In general, technical costs such as salaries, wages, benefits, travel, and equipment that are required for a project can be charged directly. Non-technical administrative expenses like those incurred by clerical personnel (salaries, clerical supplies, routine postage, local phone service, etc.) are not normally chargeable as direct costs.

Indirect Costs

Indirect costs, also known as Facilities and Administration (F&A) Costs, can be defined as those expenses that are not readily identifiable and assignable to a specific project but are necessary to ensure that the project is successfully completed. As indirect expenses are difficult to track accurately, they are captured through an “indirect cost rate” determined by negotiation. The indirect cost rate is expressed as a percentage of eligible direct costs and includes expenses such as clerical support, office equipment and supplies, local phone service, facility space, and utilities. Except in rare circumstances, any expense normally assigned to the indirect cost rate cannot also be claimed as a direct cost. Doing so would result in double billing the sponsor for like expenses. Like direct costs, indirect costs must pass the four tests to determine eligibility for reimbursement.

In regard to educational institutions, the following costs are normally included in the indirect cost rate: depreciation; interest on debt; routine operations and maintenance; general administration; departmental administration; sponsored projects administration; financial services; human resources; and library expenses.

In determining indirect cost reimbursement, the Cooperative Extension Service utilizes the “modified direct total cost” (MDTC) method of calculation. Under the MDTC method, direct costs are adjusted to form an indirect cost “base” which represents the total cost to which the indirect cost rate is applied. The formula for determining the indirect cost base is as follows:

$$\begin{aligned} & \textit{Total Direct Costs} - \textit{Equipment} - \textit{Rental of off-site facilities} - \textit{Tuition} \\ & \qquad \qquad \qquad \textit{remission} - \\ & \qquad \qquad \qquad \textit{cost of sub-awards exceeding \$25,000} = \textit{Indirect Cost Base} \end{aligned}$$

In the case of sub-awards, to prevent an institution from unduly profiting from a sponsored program, indirect costs are only applicable to the first \$25,000 of each award. It is generally expected that an institution will utilize its own personnel to complete its obligations under a sponsored program. If, however, the project calls for special services beyond the grantee’s capabilities, sub-awards are permissible; however, they must be specified and included in the original proposal budget. Regardless, sub-awards exceeding \$25,000 can only be claimed partially in the indirect cost base.

Treatment of Selected Items of Cost Applicable to the Cooperative Extension Service

Potential expenses for a sponsored project are countless and largely determined by the characteristics of the project at hand. For the Cooperative Extension Service, however, there are a number of expenses that are typically allocable to a wide variety of projects. Treatment of those expenses is outlined in OMB Circular A-21 and is summarized as follows:

Salaries and Wages: All salaries and wages paid by the grantee to employees specifically assigned to a sponsored project are considered direct costs provided that the employee is not included in the indirect cost rate and the total percentage of time an employee is assigned to all sponsored projects does not

exceed 100%. In determining the amount of salaries and wages to assign to a project, considerations must include the employee's base annual salary or hourly wage; the number of hours, days, or months the employee will be assigned to the project; and the percentage of time the employee will directly work on the project during the specified period. Sponsored program funds cannot be utilized to augment or increase an employee's base salary; however, for multi-year projects the potential for salary and wage increases should be considered and factored into the budget. Likewise, if a single year project spans two fiscal years, appropriate adjustments should be made for increases and proportionately distributed.

Fringe Benefits: The cost of fringe benefits associated with the salaries and wages assigned to the project are allowable as direct costs. Fringe benefit rates are stated as a percentage of total salary, are calculated annually by the institution, and may vary between full-time and temporary personnel. The fringe benefit rate is only applicable to the portion of the employee's salary directly charged to the sponsored project.

Equipment: Equipment includes those items necessary for completion of a project and exceeding an acquisition cost of \$5,000 and a useful life of one year. Modifications, attachments, accessories, taxes, and shipping costs are all included in the total cost of a piece of equipment. In addition, if several components are purchased for assembly into a single piece of equipment, the aggregate of those components are considered in calculating total cost. Equipment is separated into two categories dependent on its use. "Special Purpose Equipment" is normally used only for research, technical activities, or other uses directly attributable to the sponsored project. This type of equipment is considered a direct expense provided it is not otherwise available or accessible, is the type normally charged as a direct cost by the institution, and is acquired in accordance with standard institutional practice. Special Purpose Equipment is not included in indirect cost base calculations. "General Purpose Equipment" is normally usable for purposes other than research and technical activities and can serve purposes other than those related to the project. Normally, use of general purpose equipment is included in the indirect cost rate unless it can be identified as assignable specifically to the sponsored project.

Travel: Travel expenses including transportation, lodging, subsistence, and related costs are normally treated as direct costs. In order to be eligible, travel for all subjects must be necessary for completion of the project or be associated with reporting project results. Standard Cooperative Extension practice is to base travel expenses on a per diem cost depending on the destination. Actual costs for transportation, including applicable mileage reimbursement rates, are documented. Airfare is only reimbursable at coach rates, with business and first-class accommodations ineligible. Expenses incurred for the use of private or chartered aircraft are only reimbursed at the level of normal commercial coach rates. Under the Fly America Act, government-sponsored grants require that travelers associated with the grant fly on U.S.-owned airline carriers.

Professional Services or Consultants: Under normal circumstances, those applying for sponsored funding should plan to complete the associated tasks with no outside, private assistance; however, funders recognize that in some

instances it is more efficient or cost-effective to contract various portions of the project. When utilizing the services of a consultant, it is expected that these costs be specified and justified in the proposal, that procurement of services follow normal institutional standards, and that total compensation not exceed the consultant's normal daily rate or the rate typically charged for like services in the market area. Special consideration should be given to the funder's daily limits on payment for such services.

Publication, Documentation, and Dissemination: Costs of preparing, publishing, and disseminating research findings are allowable provided the expenses are leveled impartially on all papers published by the journal in question. Preparation of documents for training purposes is also allowable.

Participant Support Costs: Support costs for trainees, study participants, or other individuals involved in a project are allowable. Stipends, travel allowances, registration fees, lodging, meals, printed materials, and other expenses associated with meetings, conferences, and training sessions are typically considered participant support costs. Participants do *not* include Cooperative Extension employees.

Meetings and Conferences: If the sponsored project includes provisions for conducting meetings and conferences, associated expenses are allowable. Rental of facilities, supplies, publications, conference services, food service, and speaker fees are all eligible expenses, as are salaries of personnel involved in planning and conducting the gathering. Expenses for entertainment, social activities, and alcoholic beverages are specifically excluded and are non-allowable costs.

Sub-Awards: In cases where another institution is better suited to perform tasks associated with the project, the grantee may "pass through" funding for accomplishment of those tasks. These sub-awards are allowable expenses; however, as previously noted, the portion of sub-awards included in the indirect cost base cannot exceed \$25,000 for each award.

Advertising and Public Relations: Advertising and public relations expenses are only allowable to the extent that they are involved in educational message dissemination. Conveyance of information about the project to interested parties or the public is an allowable expense when necessary for a successful project. General advertising, promotion of the institution, and promotional items (including incentive items) are not allowable.

Materials and Supplies: Materials and supplies are those items necessary for completion of the project with a value of less than \$5,000 or a useful life of less than one year. Taxes and shipping are included as allowable costs.

General Guidance for Typical Project Expenses

Expense	Allowable	Direct/Indirect	Comments
Salaries and Wages	Y	Direct	Cooperative Extension Employees assigned to project only; total assignment to projects cannot exceed 100% of an employee's time and salary for year
Fringe Benefits	Y	Direct	At current rate
Travel	Y	Direct	Necessary for completion of project or in reporting results
Equipment	Y	Direct	Necessary for project; not included in indirect cost base
Materials and Supplies	Y	Direct	Purchased
Participant Support Cost	Y	Direct	Cooperative Extension employees not eligible
Professional Services	Y	Direct	At a rate not exceeding the standard rate for similar services in the private sector, the consultant's standard daily rate, or the daily limits imposed by the funder.
Sub-Awards	Y	Direct	Only \$25,000 of each award included in indirect cost base
Publications	Y	Direct	Directly related to reporting project findings or serving as training materials
Meetings/Conferences	Y	Direct	If considered an objective of the project
Advertising/PR	Y	Direct	As directly related to informing the public or interested parties about the project or results
Advisory Councils	Y	Direct	Only if authorized by sponsor
Alcoholic Beverages	N	NA	

Alumni Activities	N	NA	
Debt Service	N	NA	
Bonding	Y	Direct	If pursuant to award
Communications	Y	Direct	Specifically related to project and able to be documented; otherwise, indirect
Contingencies	N	NA	
Administrative Expense	Y	Indirect	
Depreciation	Y	Indirect	
Donations	N	NA	Can be used for cost sharing if required by sponsor
Employee morale, health, and welfare	Y	Indirect	
Entertainment	N	NA	
Fund Raising	N	NA	
Goods and Services for personal use	N	NA	
Living Expenses	N	NA	Unless related to eligible travel
Insurance	Y	Direct/Indirect	Direct costs if a policy is purchased specifically related to project
Losses on other sponsored projects	N	NA	
Maintenance and Repairs	Y	Direct	Provided it is required for project and does not add value to asset; to ensure proper functioning only
Memberships	Y	Direct/Indirect	Dependent on applicability to project
Pre-Agreement Costs	Y	Direct	Only if approved by sponsor and otherwise allowable
Proposal Costs	Y	Indirect	
Rearrangement/Alteration	Y	Direct	If necessary to complete project and allowable by sponsor; reconversion also allowable if pre-approved.
Recruiting Employees	Y	Indirect	Dependent on

			treatment in other agreements
Rental of Buildings/Equipment	Y	Direct	Provided rates are reasonable and necessary for completion of project; not included in indirect cost base
Scholarships/Aid	Y	Direct	Only when purpose of project is to provide training; not included in indirect cost base
Tuition Remission	Y	Direct	If student is working on sponsored project; not included in indirect cost base
Selling/Marketing	N	NA	See Program Income for additional information
Specialized Services	Y	Direct	Only if documented and charged based on actual usage
Taxes	Y	Indirect	Except for sales tax on eligible purchases (direct)
Training	Y	Direct	Specifically related to project objectives
Freight/Postage	Y	Direct/Indirect	Dependent on extent of expense necessary to complete project; for small expenditure, normally indirect
Clerical Support	Y	Indirect	Unless specifically assigned to project, meeting certain requirements, and approved as direct cost
Office equipment	Y	Indirect	Unless specifically assigned to project
General Office supplies	Y	Indirect	Unless specifically assigned to project and not comingled with general supplies
Telecommunications	Y	Indirect	Unless documentable as specifically related to project (phone

			cards)
Office Use	Y	Indirect	
Utilities	Y	Indirect	
Custodial Service	Y	Indirect	
Library Services	Y	Indirect	