



## POLICY

### Title: Cost Policy on Sponsored Agreements

#### Policy Statement

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

#### Reason for the Policy

This policy provides guidelines and guidance for charging allowable expenses to sponsored agreements. Furthermore, this policy provides the framework for consistent usage of the University's cost accounting practices to prevent unallowable costs and double charging of costs on sponsored agreements.

#### Applicability of the Policy

This policy applies to all employees, including administrators, staff, faculty, and student employees, who manage, supervise, or conduct University business or financial transactions or activities. This policy applies to all sponsored agreements, federal and non-federal. However, the costs identified as "normally indirect" (Appendix A) 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.

Federal formula grants such as Hatch, McIntire-Stennis, Multi-State, Animal Health, and Smith Lever are subject to this policy. However, because indirect costs are not allowed to be charged to federal formula grants, applicability of the policy pertains only to the direct charging of costs.

#### Definitions

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

**Arms-length bargaining:** Transactions between two parties who are independent and do not have a close relationship with each other.

**Cost Accounting Standards (CAS 501, 502, 505, and 506):** Four Cost Accounting Standards (CAS) that are designed to achieve consistency in cost accounting practices for Educational Institutions.

**CAS 501 (Consistency in estimating, accumulating, and reporting costs):** A federal cost accounting standard that requires a University cost accounting practice in estimating costs for a proposal that is consistent with accumulating and reporting costs. Consistency in the

application of cost accounting practices is necessary to enhance the likelihood that comparable transactions are treated alike.

CAS 502 (Consistency in allocating costs incurred for the same purpose): A federal cost accounting standard that requires each type of cost to be allocated only once and on only one basis to any sponsored agreement or other cost objective. A cost type must be treated consistently in like circumstances as either a direct cost or as an indirect cost.

CAS 505 (Accounting for Unallowable Costs): A federal cost accounting standard that facilitates the negotiation, audit, administration and settlement of sponsored agreements. The standard requires the identification of unallowable costs and detailed records that provide a visible way of assessing its accounting status in terms of allocability to sponsored agreement cost objectives.

CAS 506 (Accounting Period): A federal cost accounting standard that requires Universities to use their fiscal year as their cost accounting period unless certain exceptions occur.

Computing Devices (2 CFR 200.20): Computing devices are machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or "peripherals") or printing, transmitting and receiving, or storing electronic information.

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: A detailed explanation and support documents as evidence to substantiate allocability, allowability, reasonableness and compliance with required federal, sponsor, award-specific, and university policy 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 the University of Vermont and State Agricultural College and 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

comprise 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."

**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.

## Procedures

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, handbooks, and collective bargaining agreements.

The University of Vermont follows the applicable cost principles outlined in the federal guidelines, which include four key Cost Accounting Standards (501, 502, 505, and 506). The guidelines provide definitions, examples of direct, indirect, allowable, and unallowable costs and acceptable conditions for applying costs to sponsored agreements.

Additionally, the University follows the NIH Grants Policy Statement, other sponsor-specific guidance, and the specific terms and conditions of individual sponsored agreements.

Four criteria from the applicable federal guidelines determine whether a cost can be charged to a sponsored agreement. These criteria apply to both direct and indirect (Facilities & Administrative) costs. 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 be:
  - a. Incurred solely to advance the work under a sponsored agreement or benefit both the sponsored agreement and other work of the institution, in proportions that can be approximated through the use of [reasonable methods](#), and
  - b. 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,
  - c. Adhere to University policies regarding specific items of cost, including documentation requirements, and
  - d. Adhere to federal guidelines applicable to specific costs, such as the Fly America Act (49 U.S.C. 40118).
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, and
  - b. Certain types 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, and technical materials, services, and supplies
- Scientific equipment costs
- Travel costs
- Computing devices, as defined under 2 CFR 200.20
- Consultant costs
- Subaward 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.

Administrative and clerical salaries, wages, and related fringe benefit costs 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 the project or activity;

- b) Individuals involved can be specifically identified with the project or activity;
- c) Such costs are explicitly included in the budget proposed to the federal sponsor or have the prior written approval of the Federal awarding agency;
- d) The costs are not also recovered as indirect costs; and
- e) All applicable sponsor guidelines and requirements have been met.

Salaries in excess of any sponsored specified caps are not allowable. The University follows the applicable federal and sponsor specific guidelines for the determination of such salary caps.

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 should exist at the unit level. This would describe the methodology of allocations and describe why the method is reasonable.

#### ***Direct Cost Classification and Charging on Sponsored Agreements***

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, in accordance with the University Operating Procedure Establishment of Advance Accounts for Sponsored Agreements.

Direct or indirect costs must be charged to the correct expense account as defined by the University's 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 funding considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement or for other reasons of convenience. Shifting costs from a sponsored agreement to the appropriate cost objective within the University's Chart of Accounts must follow the University Operating Procedure Cost Transfers Involving Sponsored Agreements.

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, wages, and related fringe benefits of administrative and clerical staff
- Office supplies (pencils, paper, notebooks, standard forms, file folders, etc.)

- Postage costs
- Telecommunications (office phone and related costs including monthly equipment usage fees, pagers, 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.

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:

- 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 before any normal indirect cost may be direct-charged to a federal sponsored agreement or federal formula grant.

*Proposal Stage* – When submitting a proposal with a budgeted expense that would normally be considered an indirect cost, for sponsors requiring a budget and/or budget narrative for proposals, the cost should be specified in the proposed budget of the sponsored application and the unique circumstances requiring direct charging are justified in the budget narrative.

*Post-award Stage* – A direct charge justification shall be submitted and approved before any normally indirect cost may be direct charged to a sponsored agreement 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.

### ***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 CAS 505 accounting standard. The following examples of unallowable costs cannot be charged to federal sponsored agreements as a direct or indirect cost:

- 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 in the University's Chart of Accounts. 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 units(s). The implementation of the policy includes and 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.

Sponsored Project Administration (SPA) reviews proposals, awards and expenditures for compliance with this policy and the sponsor's terms and conditions. SPA shall review and approve direct cost justification forms on all sponsored projects. SPA shall provide clarification and training on this policy and related procedures.

Financial and Cost Accounting Services (FCAS) is responsible for providing guidance on the University costing standards as it relates to the facilities and administrative rates.

More information is available online [here](#).

## Contacts

Questions concerning the daily operational interpretation of this policy should be directed to the following (in accordance with the policy elaboration and procedures):	
Title(s)/Department(s):	Contact Information:
Sponsored Project Administration (SPA)	(802) 656-3360
Associate Controller, Financial and Cost Accounting Services	(802) 656-1335

## Forms/Flowcharts/Diagrams

- None

## Related Documents/Policies

- [Administrative Policy for Sponsored Project Administration Procedures](#)
- [Cost Transfers Involving Sponsored Agreements Procedure](#)
- [Effort Management and Reporting on Sponsored Agreements Policy](#)
- [University Cost Accounting Disclosure Statement](#)
- Uniform Guidance 2 CFR 200 Subpart E - Cost Principles

## Regulatory References/Citations

- None

## Training/Education

Training will be provided on an as-needed basis as determined by the Approval Authority or the Responsible Official.

## About this Policy

<b>Responsible Official:</b>	Vice President for Research	<b>Approval Authority:</b>	President
<b>Policy Number:</b>	V. 6.1.3	<b>Effective Date:</b>	March 7, 2017
<b>Revision History:</b>	<ul style="list-style-type: none"><li>• V. 6.1.1 /V. 3.2.6.1 July 1, 2012</li><li>• V. 6.1.2 July 1, 2015</li><li>• Reaffirmed November 10, 2021</li></ul>		

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