

Introduction

Welcome to *Understanding the Cost Principles Framework* Training Course PDF document.



Please note that this PDF document does **NOT** replace the course. It is available here so that you can review it from time to time or print it for your files.

Many federal policies and guidelines, along with UAB policies must be followed to ensure proper grant management. They also ensure that research funding is spent in a manner that complies with applicable laws and regulations. This course provides an overview of guidelines that affect the way sponsored projects are managed at UAB. This course also provides a framework of the costing principles that affect the way sponsored projects are managed at UAB.



For pre-award and budget development questions, please contact the Office of Sponsored Programs (OSP) at (205) 934-9330. Additional information is available at the [OSP Researcher's Toolkit](#). For post-award expenditure questions, contact the Office of Grants and Contracts Accounting at (205) 934-9330.

Cost Principles Framework

As one of the nation's leading recipients of sponsored funding, UAB's continued research success is contingent on:

- Effective conduct and management of sponsored projects.
- Recognizing and complying with applicable policies and regulations.

Understanding the Cost Principles Framework

UAB has established policies and procedures that ensure accountability of sponsored funds. In accordance with UAB's Enterprise Code of Conduct, faculty and staff are part of this accountability.

Glossary

Terms

- **Allocable:** It can be assigned to the specific sponsored project on some reasonable basis.
- **Allowable:** An allowable cost must be: reasonable, allocable, and consistently treated. If a cost cannot meet all of these criteria, it is unallowable and is not eligible for reimbursement.
- **Consistently Treated:** UAB must be consisted in assigning costs to sponsored projects. Costs may be charges as either direct costs or F&A costs. These costs must be treated the same for all work under similar circumstances, **regardless of the source of funding** (i.e., federal, state, local, non-profit, and industry).
- **Contract:** An award instrument used to acquire from a non-federal party, by purchase, lease, or barter, property, or services for the direct benefit or use of the entity. The same term may be used to describe a vendor relationship between a recipient and another party under a grant (to acquire routine goods and services); however, the recipient may be sub-award to describe the contract under a grant relationship.
- **Grants:** Financial assistance mechanism providing money, property, or both to an eligible entity to carry out an approved project or activity. A grant is used whenever the entity anticipates no substantial programmatic involvement with the recipient during performance of the financially assisted activities
- **Reasonable:** prudent business person would have purchased this item and paid this price
- **Sponsored Projects:** A transaction (via a grant or contract) in which there is a specified statement of work identifying the services to be performed by UAB with a related, reciprocal transfer of something of value, typically financial support from the project sponsor. A sponsored project may support various activities including but not limited to research, training, instruction, public service and

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construction. The type of project sponsor vary as well from U.S. government, state, and local agencies to foundations, companies, and other universities

There are numerous policies, regulations, and guidelines governing UAB sponsored projects, which are awarded by either grant or contract. Many of these direct the manner in which research funding is managed and spent. Faculty and staff engaged in sponsored projects should recognize the applicable policies, procedures, and regulations that apply to these activities.

Key Elements

The following are the key elements to understanding the costing principles:

- Direct cost
- Facilities and Administrative (F&A) Costs (formerly known as Indirect Cost)
- Allowability
- Allocability
- Reasonableness
- Consistently Treated

Stewardship

Federal regulations provide the cost principles of stewardship for spending taxpayer dollars. In order for UAB to demonstrate its commitment, the University is subject to review from auditors, both internal and external.

Auditors then review expenses, policies, and procedures to ensure that they meet various rules, regulations, and requirements.

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UAB's Enterprise Code of Conduct – Standard 6

“Safeguard and accurately account for UAB resources, UAB is dedicated to responsible stewardship. UAB resources must be used for UAB business purposes and not for personal gain. All UAB accounts, financial reports, tax returns, expense reimbursement, time sheets, and other documents including those submitted to government agencies must be accurate, clear, and complete. All entries in UAB records must accurately reflect each transaction.”

UAB must meet the following requirements:

- Compliance with applicable laws, rules, and regulations.
- The sponsor's requirements listed in the notice of award or contract.
- Compliance with established internal controls, which are established by UAB through its policies and procedures.
- Adherence to Generally Accepted Accounting Principles (GAAP).

The OMB, UAB, Audits, and Agencies

The Federal Office of Management and Budget (OMB) issues policy statements to provide information, guidance, and rules that regulate administrative requirements, cost principles, and audit requirements. These OMB policies are known as the **Uniform Guidance (UG)**, formerly known as OMB Circulars A-21, A-110, and A-133.

- UAB is required to comply with applicable uniform administrative requirements or the agency's interpretation of these regulations in the administration of sponsored projects.

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- Sponsored project may be thought of as a transaction (via a grant or contract) in which there is a specified statement of work identifying the services to be performed by UAB with a related, reciprocal transfer of something of value, typically financial support from the project sponsor. A sponsored project may support various activities including but not limited to research, training, instruction, public service and construction. The type of project sponsor vary as well from U.S. government, state, and local agencies to foundations, companies, and other universities.
- External and internal auditors, and Federal agencies apply these rules and regulations when reviewing and auditing costs.

OMB Uniform Guidance

OMB Uniform Guidance (UG) bases the legitimacy of a direct expense charged to a sponsored award on its:

- Allowability
- Allocability
- Reasonableness

Understanding and consistently applying these concepts will enable you to understand budgeting and expenditures for sponsored programs.

Federal Acquisition Regulations (FAR)

The **Federal Acquisition Regulation (FAR)** is the procedural manual that Federal agencies follow to acquire goods and services through procurement contracts.

The Federal government has an additional set of uniformity guidelines for Federal contracts. The same basic costing principles are included in these. FAR clauses are included in the Federal contracts received by UAB. These are codified in the Title 48 of the Code of Federal Regulations (CFR).

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The FAR System of uniform policies and procedures is intended to provide:

- Coordination
- Simplicity
- Uniformity

Audit Findings

If the University is unable to demonstrate compliance with these costs principles, the federal government may impose sanctions that could lead to repayment and/or the loss of the funding.

In addition, federal regulations require the University to address and resolve audit findings and recommendations in a timely manner. Too many major findings could cause agencies to not give the institution awards or to impose more stringent requirements on currently awarded projects.

Costs

Direct Costs

Direct Costs are simply the costs that can be identified with a particular sponsored project and that can be directly assigned to the project relatively easily with a high degree of accuracy.

Examples of direct costs that could be directly assigned to a specific sponsored project:

- Salary of Principal Investigator (PI) and Program Director (PD)
- Laboratory supplies purchased for the project (e.g., glassware, chemicals)
- Salary of technician/support staff
- Equipment

Facilities and Administrative Costs

Facilities and administrative costs (formerly known as indirect costs) are those that cannot be identified readily and specifically with a particular sponsored research project. These costs are incurred for common or joint objectives.

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Examples of Facilities and Administrative (F&A) Costs:

- Facility costs (e.g., utilities, security, and maintenance)
- General office supplies
- Administrative and clerical staff salaries

Under certain circumstances, items and services normally considered F&A costs may be considered a direct cost and appropriately charged to the sponsored project.



There is more information located on the Financial Affairs website [Direct vs Indirect Cost Policy](#). Also you may be interested in Financial Affairs [Direct vs Indirect Grid](#) Excel spreadsheet.

Allowable Costs

An allowable cost must be **reasonable, allocable, and consistently treated**. If a cost cannot meet all of these criteria, it is unallowable and is not eligible for reimbursement.

Assessing Allowability of Costs

Certain costs may be “expressly” unallowable. In other words, it is always unallowable as a direct cost.

- Unallowable activities (e.g., fundraising, alumni relations, lobbying, etc.)
- Unallowable transactions (e.g., alcoholic beverages, fines, etc.)



It is incumbent upon the Principal Investigator (PI) and the grant administrator to know the terms/conditions of their grant/contract.

Certain costs may be allowable if certain terms and conditions of the grant/contract are met. For example:

- Costs associated with animal acquisition, housing, care, use, etc., while allocable, are allowable only if approved by the Institutional Animal Care and Use Committee (IACUC).

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- Federal contracts often require Federal Contract Officer approval for overtime, equipment, foreign travel, certain purchases, etc., even after the contract is awarded.

Allocable Costs

An item of cost allocable to a specific sponsored project if it is incurred to advance the work under that sponsored project.



It is critical to understand and recognize these items of cost when developing your project budget. This is in essence a road map for allocating (i.e., directing) charges to the appropriate sponsored project at the time the supplies/services are purchased.

Examples:

Allocability to the Sponsored Project		
Example	Yes	No
Travel by PI to conference (not related to specific project)		x
Salary of research technician	✓	
Project Supplies	✓	
Proposal preparation costs		x

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Reasonable Costs

- Should reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.
- Are necessary for the performance of the sponsored project.
- Are consistent with applicable institutional policies and procedures, Federal and State laws and regulations, and sponsored agreement terms and conditions.

Conclusion

You should now have a clear understanding of the:

- Basic cost principles criteria (i.e., allowability, allocability, reasonableness, and consistency) that permit an expense to be budgeted and charged to a project; and the
- Importance of ensuring that these standards are consistently treated.

Reminder: This material does **NOT** count as taking the course located in the Learning System. It is for review purpose only.