



Policy Title: BF4014 - Charges to Sponsored Agreements

Subject Area: Finance

Responsible Official(s): Executive Vice President and Chief Operating and Financial Officer

Responsible Office(s): Accounting Office

Policy Statement

The University of Memphis will charge costs to sponsored agreements in compliance with Federal regulations, to ensure all costs are reasonable, allocable, consistent and allowable.

This policy details consistent practices for defining/charging direct costs, treatment of costs in like/unlike circumstances, treatment of unallowable costs, and administrative and indirect costs (referred to as Facilities and Administrative costs or F&A costs) to sponsored agreements. Those involved in charging costs to University accounts must understand and comply with this policy in order to meet Federal costing standards and ensure that all costs are allowed and charged in a manner that is an accurate reflection of the expenses incurred for the benefit of the project.

Unallowable costs will not be permitted on sponsored agreements, and, if charged to a sponsored agreement, will be moved to non-sponsored funds. These costs will be included on the appropriate base when calculating the F&A rate.

Authority

The following federal regulations are the authority for this procedure:

OMB Uniform Guidance (2 CFR 200) - Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Dec 2014).

Title 48 in the Code of Federal Regulations (48 CFR), Chapter 99, part 9905, Cost Accounting Standards (CAS) for Educational Institutions:

- CAS 501 – Consistency in estimating, accumulating and reporting costs by educational institutions,
- CAS 502 – Consistency in allocating costs incurred for the same purpose by educational institutions,

- CAS 505 – Accounting for unallowable costs – educational institutions and,
- CAS 506 – Cost accounting period – educational institutions.

Definitions

Arms Length Transaction – A fair market exchange, in an open competitive market, between a knowledgeable buyer and seller, neither of which are influenced by duress or harmful action.

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.

Facilities & Administrative Cost Rate (Indirect Cost Rate) – A composite rate applied to sponsored agreements as a percentage of the sponsored agreement's direct costs. The federally negotiated indirect cost rates for instruction, organized research, and other sponsored activities are developed by the University in accordance with the Office of Management and Budget and the Federal Acquisition Regulation, and negotiated with the Department of Health and Human Services, Division of Cost Allocation, the University's federal cognizant audit agency.

Facilities and Administrative Costs (F&A or Indirect Costs) – F&A costs are broad categories of costs. "Facilities" is defined as 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 one of the subcategories of Facilities.

FOAP(A) – Account Structure: Fund, Organization, Account, Program, (Activity). Not all account structures will contain an activity code.

Indirect Costs – Indirect costs represent the expenses of doing business that are not readily identified with a particular grant, contract, project function or activity, but are necessary for the general operation of the organization and the conduct of activities it performs. Components are primarily related to facility and administrative costs.

Like Circumstances – Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A 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.

Sponsored Agreement – Agreement funded by federal and nonfederal agencies and administered by office of Sponsored Programs, University of Memphis Foundation, University of Memphis Research Foundation and Grants & Contracts Accounting. Sponsored agreements

include grants, contracts and cooperative agreements for research, training, instruction and public service activities. Sponsored agreements are assigned to restricted funds.

Unallowable Costs – Unallowable costs are costs that are not eligible for reimbursement on sponsored projects as either direct or indirect.

Unlike Circumstances – Unlike circumstances are instances in which a cost normally considered to be an F&A cost meets the criteria for a Direct Cost. The cost can then, therefore, be charged directly to the sponsor.

Procedures

Charging Direct Costs

In accepting government sponsored projects such as grants, contracts, and other types of agreements, the University agrees to abide by government regulations regarding the use of those funds. The federal Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Circular sets forth general criteria for determining the allowability of direct costs on government sponsored projects at educational institutions. Many government agencies publish additional cost guidelines specific to those agencies.

Summary of Criteria for Determining Allowability of Direct Costs:

Principal Investigators, Department Business Officers and Grant Administrators should be familiar with the criteria used to define allowable direct costs, for purposes of determining whether it would be appropriate to budget or charge a certain direct cost to a sponsored project (includes all sponsored programs with Federal flow-thru funds). The criteria to determine the allowability of direct costs are that all costs must be reasonable, allocable and consistent. OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

A. Reasonableness

A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved, 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. Major considerations involved in the determination of the reasonableness of a cost are:

- whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement;

- the restraints or requirements imposed by such factors as arm's length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions;
- whether or not the individuals concerned acted with due prudence in the circumstances, considering his/her responsibilities to the institution, its employees, its students, the Federal Government, and the public at large; and,
- the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

B. Allocability

A cost is allocable to a particular cost objective (i.e., sponsored agreement) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. A cost is allocable to a sponsored agreement if:

- it is incurred solely to advance the work under the sponsored agreement;
- it benefits both the sponsored agreement and other work of the institution; or
- it is necessary to the overall operation of the institution and is deemed to be assignable in part to sponsored projects.

Where the purchase of equipment or other capital items are specifically authorized under a sponsored agreement, the amounts are assignable to the sponsored agreement regardless of the use that may subsequently be made of the equipment.

If a cost benefits two or more projects, the cost should be allocated to the projects based on the proportional benefit.

C. Consistency

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A 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.

Typical costs charged directly to a sponsored agreement are the compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs to the extent they are consistently treated, in like circumstances, by the institution as direct rather than F&A costs; the costs of materials consumed or expended in the performance of the work; and other items of expense incurred for the sponsored agreement. The cost of materials supplied from stock or services rendered by specialized facilities or other institutional service operations may be included as direct costs of sponsored agreements, provided such items are consistently treated, in like

circumstances, by the institution as direct rather than F&A costs, and are charged under a recognized method of computing actual costs, and conform to generally accepted cost accounting practices consistently followed by the institution.

D. Allowability

Subpart E of OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards provides a detailed listing of particular costs, and principles to be applied in establishing the allowability of these costs.

Costs expressly unallowable shall be identified and excluded from any billing, claim, application, or proposal applicable to a sponsored agreement.

The University of Memphis Typical Direct Costs

At the University of Memphis, direct costs must be necessary to perform the sponsored agreement's stated scope of work. The following are typical costs normally budgeted and charged as direct costs:

- Salaries for personnel directly engaged in the activity charged, Account Codes 61XXX
- Employee Benefits, Account Codes 62XXX
- Travel, Account Codes 73XXX
- Operating Expenses, Account Codes 74XXX
- Consulting Services, Account Code 74440
- Lab Supplies (not Office Supplies), Account Code 74500
- Animal Care Charges, Account Code 74505
- GC Subcontracts under \$25,000, Account Code 77830
- GC Subcontracts over \$25,000, Account Code 77840
- GA Fee Remissions, Account Codes 79XXX

Salaries on Sponsored Agreements

- Levels of effort proposed in any sponsored agreement application should be consistent with the actual effort that each individual is expected to expend on the project during the relevant project period(s). The amount of salary support requested should normally be determined by multiplying the proposed level of effort by the individual's Institutional Base Salary (IBS). Refer to [BF4019 - Institutional Base Salary](#). See Link below.
- Some sponsors, most notably NIH, impose limitations on the amount of IBS that may be used as a basis for charging salary to their projects. Where such limitations apply, the requested salary support is determined by multiplying the proposed level of effort by the maximum IBS allowed, or the salary cap.

- In certain circumstances the University may elect to request salary support that is less than the salary support that could be requested based on proposed level of effort. Refer to [BF4018 - Sponsored Agreement Cost Sharing](#). See Link below. Nevertheless, the total amount of effort committed to the project must be provided and ultimately certified.
- Salary distribution consistent with the projected effort should begin on sponsored agreement FOAP(A)s concurrently with actual project effort. It is each faculty member's responsibility to be aware of his/her level of effort and to communicate any significant changes in level of effort to his/her respective business officer/grants accountant to ensure that salary distributions are reviewed and updated on a timely basis.

Direct Costs: Availability of Funds

If sponsor funds are available, appropriate direct cost items must be charged to sponsored agreements. If sponsor funds are not available and it is determined that the scope of work of the project cannot be modified to eliminate the need for the item, then the direct cost item should be charged to a related cost share fund.

Charging F&A Costs

Facilities and Administrative costs are costs that cannot be identified readily and specifically with a particular sponsored agreement. They include broad categories of costs such as depreciation, general administration, and departmental administration expenses.

The University's Facilities and Administrative Cost Rate Agreement provides a composite rate to apply to sponsored projects as a percentage of the sponsored project's direct costs.

At the University of Memphis, F&A costs are charged to sponsored projects on a monthly basis, after total direct costs have been determined. The following are typical F&A costs that are covered by the F&A rate, which is applied to sponsored agreements as a percentage of direct costs:

- Salaries and Fringe Benefits for clerical support and administrative positions at the University such as secretaries or administrative assistants, business officers, accountants, executive assistants, directors, vice presidents, and other professional administrative positions. This includes positions in central operations offices which serve the entire University, such as the President's Office, Human Resources, and Finance;
- Office equipment and general purpose equipment;
- Repair and maintenance of University facilities;
- Telephone costs including equipment, data lines, recurring charges, installation and maintenance;

- Hazardous waste services;
- Subscriptions, library books, periodicals, etc.;
- Routine postage;
- Routine office supplies;
- Photocopy for general office use;
- Computers, servers, printers, ink, standard software, flash drives and the like; and
- Cell phones.

Like and Unlike Circumstances

Some costs can be considered either direct or F&A, depending on the circumstances of the individual sponsored agreement. This results in **allowable costs in like and unlike circumstances**. To ensure the consistent treatment of costs, the University of Memphis will comply with the following:

Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or F&A 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.

It is possible that unlike circumstances may exist that allow for certain costs to be charged differently from their normal treatment. Unlike circumstances are instances in which a cost normally considered to be an F&A cost meets the criteria for a direct cost. The cost can, therefore, be charged directly to the sponsor. This cost must meet the following requirements:

- The cost must fit the definition of a direct cost.
- The sponsored agreement has a special need for the item or service beyond the normal level of services provided.
- The special circumstances necessitating the cost as a direct cost are justified in the proposal budget.
- The cost is approved by the sponsor.

Budget and sponsor approval are not sole justification to charge an F&A cost as a direct cost. A direct cost:

- Provides a direct benefit to the project objective
- Is incurred specifically for one activity

An indirect cost:

- Is incidental to the project objective
- Is general in nature

Following are examples of a “major project” where **direct charging** of administrative or clerical staff salaries may be appropriate. These examples are not exhaustive, nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples:

- Large, complex programs such as General Clinical Research Centers, Primate Centers, Program Projects, environmental research centers, engineering research centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.
- Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting (such as epidemiological studies, clinical trials, and retrospective clinical records studies).
- Projects that require making travel and meeting arrangements for large numbers of participants, such as conferences and seminars.
- Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).
- Projects that are geographically inaccessible to normal departmental administrative services, such as research vessels, radio astronomy projects, and other research fields sites that are remote from campus.
- Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocols; and multiple project-related investigator coordination and communications.

Unallowable Costs

Unallowable costs cannot be charged to sponsored agreements.

In compliance with federal regulations and BF4012 Disbursement of Funds, the University of Memphis will:

- Identify costs specifically considered unallowable;
- Transfer unallowable costs from sponsored agreements; and,
- Exclude costs from any billing or claim applicable to a sponsored agreement.

The University of Memphis Typical Costs Considered Unallowable on Federal Awards:

- Advertising and public relations costs for general promotion of the University, including printed materials, advertising media, promotional items, memorabilia, gifts, and souvenirs;
- Alcoholic beverages;
- Alumni activities;
- Bad debts;
- Commencement and convocation costs;

- Donations and contributions made by the institution, including cash, property, and services;
- Entertainment costs;
- Capital expenditures for general purpose equipment, buildings, and land, except where approved in advance by the awarding agency;
- Fines and penalties;
- Fund raising costs, including financial campaigns, endowment drives and solicitation of gifts and bequests incurred solely to raise capital or obtain contributions;
- Investment costs;
- Goods or services for personal use;
- Housing and personal living expenses;
- Lobbying;
- Losses on other sponsored agreements or contracts;
- Membership costs in any civic, community, country, social, or dining club or organization;
- Costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience;
- Costs allocable to activities sponsored by industry, foreign governments or other sponsors may not be shifted to federally sponsored agreements.

Unacceptable Direct Charging Practices

Charges are reviewed by Grants and Contracts Accounting periodically, as financial status reports are prepared and submitted to the grantor. Charges determined to be unallowable due to unacceptable direct cost charging practices will be removed from the grant, and charged to non-sponsored cost expenditure FOAP(A)s. The Principal Investigator and the Business Officer will be notified.

The following are examples of unacceptable direct cost charging practices:

- Assigning charges to a project without establishing that the charges accurately reflect the relative benefit to the project during the specified time period.
- Allocating indirect expenditures as a direct expenditure to a project.
- Charging expenses to a sponsored agreement at the end of a project period for the sole purpose of expending a residual balance.
- Charging a sponsored program for services that do not fall within the award period.
- Assigning costs to an incorrect account code.

Roles and Responsibilities

Principal Investigator/Program Director

- Responsible for sponsored agreement in academic environment;
- Prepare scientific proposal and develop budget in accordance with this policy;
- Responsible for directing and managing fiscal and scientific aspects of sponsored agreement;
- Review costs on a monthly basis to ensure the appropriateness of costs budgeted and charged, in accordance with all regulations;
- Work within the spirit of University and funding organization compliance policies;
- Responsible for Progress Reports, Final Progress Report and Final Invention Statement, if applicable.

Administrator/Business Officer

- Provide guidance/assistance to Principal Investigators/Program Directors regarding the development of costs budgeted and actual costs charged;
- Process, monitor, and manage human resource and financial transactions.
- Review costs on a monthly basis for reasonableness, allocability, consistency and allowability to ensure compliance with sponsor regulations.

Office of Sponsored Programs

- Assist Principal Investigator/Program Director to develop budgets consistent with the objectives of the PI/PD's efforts to achieve the ends of the application for funding;
- Ensure the appropriateness of costs budgeted and charged, in accordance with all regulations;
- Review and approve costs for like and unlike circumstances and major projects.

Grants and Contracts Accounting

- Provide guidance/assistance to Principal Investigators/Program Directors and Departmental Business Officers regarding the appropriateness of costs budgeted and charged;
- Set up new positions and salary splits for grant personnel;
- Review costs for reasonableness, allocability, consistency and allowability to ensure compliance with sponsor regulations;
- Remove charges from the grant determined to be unallowable, and move to a non-sponsored FOAP(A). Notify the Principal Investigator and Business Officer;
- Responsible for preparation and submission of financial invoices to external sponsors, including the final financial report, in a timely manner;

- Ensure financial reports are based on the University accounting system Banner, in accordance with the terms and conditions of the sponsored award, and generally accepted accounting principles (GAAP).

Related Documents, Policies and Forms

[BF4018 - Sponsored Agreement Cost Sharing](#)

[BF4019 - Institutional Base Salary](#)

Last Revision Update Log: 03/17/2023

BF4014 – Supersedes UM1719 March 28, 2018

UM1719 – Revised February 10, 2017

UM1719 – Issued: June 28, 2011