**Lincoln University of Pennsylvania**

UNIVERSITY POLICIES

Title: Costing Policy

Effective Date: June 03, 2020

Supersedes: N/A

Issuing Authority: Office of Research and Sponsored Programs

Responsible Officer: Vice President for Finance & Administration

**Policy**

It is the policy of Lincoln University (“the University”) that all costs proposed or incurred on a sponsored project comply with sponsor terms and conditions, Lincoln University policies and procedures and applicable Federal, state and local regulations. Lincoln University administers direct and indirect costs, on sponsored projects, in accordance with Federal and other sponsor requirements. The Principal Investigator (PI) is ultimately responsible for ensuring appropriate financial management, compliance with sponsor terms and conditions, as well as determining actual effort expended on a sponsored project.

**Purpose of this Policy**

The purpose of this policy is to provide guidance to PI's, colleges, departments, units and personnel of the University for proposing and administering direct and indirect costs on sponsored projects, in accordance with Federal or other sponsor requirements.

**Scope of this Policy**

This policy is applicable to all colleges, departments, units and personnel of the University involved in administering sponsored awards.

**Procedures for Implementation**

For managing expenditures on Federal grants and contracts, Lincoln University follows the Federal Office of Management and Budget Uniform Guidance (2 CFR 200) and other applicable Federal rules, regulations, and guidance. The OMB Uniform Guidance (2 CFR 200) establishes principles for determining costs applicable to federally sponsored agreements, contracts and other agreements with educational institutions.

For awards funded by a non-Federal sponsor, the award terms and conditions generally dictate whether an expense – direct or indirect – can be charged to a project. However, when a sponsor’s terms and conditions allow an expense, but Lincoln University policies and procedures or applicable Federal, state and city laws and regulations do not, the expense cannot be incurred. The more restrictive requirements apply. Indirect costs are outlined in Section C of this policy. These costs cannot be charged as direct costs to federally funded projects.

**a. General Guidelines and Definitions**

**i. Factors Affecting Allowability of Costs**

**A. Reasonable**
A cost is considered *reasonable* if the nature of the goods or services acquired or applied and the amount reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision was made to incur the cost.

**B. Allocable**
Costs should be allocable to sponsored agreements under the principles and methods of the OMB Uniform Guidance.  A cost is allocable to a particular sponsored project if the goods or services involved are chargeable or assignable to the project in accordance with the relative benefits received in proportion to use on an award.

**C. Consistency**
CAS and the OMB Uniform Guidance require the consistent application of cost accounting principles. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. Where the University treats a particular type of cost as a direct cost on sponsored agreements, all costs incurred for the same purpose in like circumstances must be treated as direct costs for all activities of the institution. Consistent treatment of costs is necessary to avoid inappropriate charges to the Federal government.

**D. Allowable**
A cost is allowable when it is permitted under Federal Regulations (on Federal awards) or the terms of the sponsored agreement. Charging a cost because it was included in the budget approved by the sponsor does not necessarily make it allowable.

**b. Direct Costs**

**i. Primary Direct Cost Functions of Lincoln University**

As defined in Federal cost principles, the primary activities of Lincoln University are Instruction, Research, Other Sponsored Activities, and Other Institutional Activities.  Costs incurred to support these activities – such as salaries and wages, fringe benefits, materials and supplies, travel, subcontracts, equipment, specialized service center charges and other operating expenses – are treated as direct costs and should be identified specifically with the benefiting projects and activities. If a direct cost benefits two or more sponsored agreements/projects, the OMB Uniform Guidance provides standards for allocation across these sponsored projects. Refer to [**Section 200.405**](https://www.ecfr.gov/cgi-bin/text-idx?SID=8c3f7c2636e23c71d72c1511dd336f5c&mc=true&node=se2.1.200_1405)in this policy for more detail on allocation across sponsored agreements.

Direct charges to a sponsored agreement should support the sponsored agreement's purpose and activity and be necessary to meet the project's scientific and technical requirements. Charges cannot be assigned arbitrarily or for the purpose of simplifying budget management that is unrelated to the sponsored agreement's purpose. Direct charges to sponsored agreements are expected to adhere to the sponsor's restrictions in the Notice of Award and budget and to support the sponsor's programmatic intent.

**ii. Acceptable Direct Costs**

Examples of acceptable direct costs that meet the OMB Uniform Guidance requirements cited above and "identifiable to a particular cost objective".

**iii. Documentation of Direct Costs**

1. The cost must be identified with the activity in the sponsored award to which the cost is charged.
2. Documentation that links the cost incurred to the sponsored agreement activity should be maintained by someone in a position to know the sponsored award activity or designee; e.g., the person taking supplies from a common storeroom. Departments should include a detailed explanation as to how the item benefits the project when submitting the purchase requisition or request to pay an invoice.
3. For Federal awards, in accordance with the OMB Uniform Guidance, **Section 200.333** and the Financial Records Retention Policy for Sponsored Programs, documentation must be maintained for a period of three years after the date the final expenditures report is submitted.
4. Only actual costs may be charged to the sponsored award, not estimated costs.

**iv. Unacceptable Direct Costing Practices**

The following direct costing practices are unacceptable because they do not meet the OMB’s Uniform Guidance's standard for a "high degree of accuracy" in the assignment of costs to sponsored projects:

1. Rotation of charges among sponsored projects without establishing the relative benefit to each sponsored project;
2. Assigning charges to sponsored projects simply to spend the remaining balance with no benefit to the project;
3. Charging the budgeted amount (in contrast to charging an amount based on actual usage);
4. Assigning charges to a sponsored agreement in advance of the time the actual cost is incurred;
5. Identifying a cost as something other than what it actually is, e.g., office supplies being recorded in the general ledger using another account such as lab supplies;
6. Charging expenses exclusively to a particular sponsored project when the expense supports more than one sponsored award or institutional activity;
7. For Federal awards, assigning charges that are generally part of normal administrative support (indirect costs) for sponsored projects (e.g., administrative and clerical salaries, office supplies, local phone charges). Refer to the [*Charging Administrative Expenses to Federal Awards Policy*](https://www.nyu.edu/content/nyu/en/about/policies-guidelines-compliance/policies-and-guidelines/charging-administrative-expenses-to-federal-awards-policy.html). If the award is from a non-Federal sponsor, direct charging of administrative support costs may be allowable.

**c. Indirect Costs [Facilities and Administrative (F&A) Costs]**

**i. Nature of Indirect Costs**

**d. Allocation of a Direct Cost Across Two or More Sponsored Projects**

**i.**“If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must 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, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis." **[OMB Uniform Guidance, Section 200.405]**.

**ii. Proportional Benefit Rule**

1. The criteria for allocation of costs to two or more sponsored projects are as follows:

* The cost in question should be identified specifically with the group of sponsored projects relatively easily and with a high degree of accuracy; and;
* The department must maintain written documentation generated or approved by the PI or Co-PI demonstrating specific identification.

2. Proportional Benefit for Compensation Costs (Salaries, Wages and Benefits that Directly Benefit Two or More Sponsored Projects).

The proportional benefit rule is applied when the Principal Investigator (PI) authorizes the distribution of salary and fringe benefits across two or more funding sources, sponsored projects or institutional activities. This authorization should reflect the PIs best judgment of the proportional benefit of the salary and fringe benefit costs to each of the affected sponsored projects.

The Time & Effort Reporting verifies that the distribution of actual salaries and wages reflects the proportional distribution of compensation. The Uniform Guidance requires that “charges to Federal Awards for salaries and wages must be based on records that accurately reflect the work performed.  These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable and properly allocated” [**[Section 200.430.i]**](https://www.ecfr.gov/cgi-bin/text-idx?SID=7ef6e1f426bd21dbe458e40256681c1c&mc=true&node=se2.1.200_1430&rgn=div8)*.*  The method of payroll confirmation reflects an “after-the-fact” reporting of the percentage distribution of activity of employees. Reports should reasonably reflect the activities for which employees are compensated by the institution. The system should reflect activity applicable to each sponsored project.  The Time & Effort Certification reports should be reviewed and approved as outlined in the [*Effort Reporting Policy for Sponsored Programs*](https://www.nyu.edu/about/policies-guidelines-compliance/policies-and-guidelines/effort-reporting-policy-for-sponsored-programs.html).