Office for Sponsored Programs Financial Services
Cost Accounting and Other Financial Services Policies
Revised, November, 2006

1. Purpose, Scope, and Services

Purpose
The purpose of this information is to state the general policies and procedures that The University of Alabama follows in managing the post-award activities of contracts and grants. Although this information is as complete, current, and informative as possible, it can in no way be all inclusive. The University intends for this information to be used as a guide and not as a substitute for agency interpretations or specific award requirements.

Scope
The Office of Sponsored Programs Financial Services focuses on the financial administration of awards made to The University of Alabama. Staff become involved when the sponsored agreement is fully executed and forwarded from OSP (after acceptance but before expenditures are made). OSP Financial Services remains involved until the sponsored agreement is considered financially closed.

OSP Financial Services is also responsible for documentation of cost sharing and preparation of the facilities and administrative cost rate study.

Services
The following activities are performed by OSP Financial Services for each sponsored agreement:

- assign and establish the University account number,
establish the approved original budget in the University's accounting system,
distribute new award notification information, including cost share requirements,
monitor expenditures on the awards,
review cost transfers,
prepare the required financial billings and/or reports,
send end date notification at least 30 days prior to award ending,
send close out notification after award has ended.

In order to expedite your service, when calling for assistance please identify your Banner Fund number so that the secretary may transfer your call to the appropriate accountant. If your inquiry cannot be resolved by the accountant, you are encouraged to contact Tammy Hudson, Assistant Director-Financial Services, (Contact information in section 2).

2. Contacting OSP Financial Services

Location:
318 Rose Administration Building.

Mailing Address:
The University of Alabama
Office for Sponsored Programs/Financial Services
P.O. Box 870136
Tuscaloosa, Alabama 35487-0136

Phone and Fax:
(205) 348-5592 Telephone
(205) 348-5339 FAX

For information regarding contacting individuals within the office, go to the Office for Sponsored Programs Contact Us Link.

3. Definition of Terms
The following definitions are subdivided into three categories:

A. Types of funding support
B. Source of funding
C. Commonly used terms in management of contracts and grants

A. Types of Funding Support

Contracts-- A contract is a legally binding agreement between one or more sponsor and the University. The terms of the agreement outline specific goals and requirements for goods and/or services to be provided to the sponsor by the University. It is routine for these goods or services to be provided on a specific schedule. The relationship between the sponsor and the University is one of procurement. This type of arrangement is not considered for public use but for the direct benefit or use of the sponsor. (Also see "Fixed Price Contract" in section C below.)

Grants-- A grant agreement is a legal instrument used when the principle purpose is the transfer of money, property, services, or anything of value to the recipient in order to accomplish a public purpose of support or stimulation.

Cooperative Agreements-- A cooperative agreement is used when substantial sponsor involvement is anticipated in the management and/or performance of the sponsored activity. In all other respects, a cooperative agreement is a grant-type instrument.

Subcontracts-- A subcontract is a contract that assigns some of the obligations of a contract to another party. The terms of the obligations are outlined in the same manner as described under contracts.

B. Source of Funding

The four major sources of funding from which the University receives sponsored agreements are as follows:

Federal-- sponsored agreements funded directly by the United States federal government.

Federal Pass-Through-- sponsored agreements where the University is not the prime contractor from the United States federal government, but is acting in the capacity of a subcontractor (federal requirements/restrictions are passed through the prime recipient from the federal government to the University).

Private -- sponsored agreements funded by private corporations.

State-- sponsored agreements funded directly by the State of Alabama.
C. Commonly Used Terms in Management of Contracts & Grants

**Allowable Cost**-- For purposes of OMB Circular A-21, an expense that can be included in the facilities and administrative cost rate proposal or included as a direct cost to federal sponsored agreements and is not specifically excluded by government regulations or by the contract/grant/cooperative agreements. See Federal Unallowables in section 8, Costing Guidelines for Sponsored Projects.

**Budget**-- Project director's financial plan that lists the categories of expenditures and dollar amounts required to carry out a project's objectives.

**Budget Period**-- An interval of time by which the project period is divided for budgetary purposes.

**Carryover (carry forward)**-- The remaining available budget balance of a project that may be used to increase the budget of the next budget period. Carryovers are not always automatic and are not always allowed by all funding agencies.

**Cost Accounting Standards - (CAS)**

CAS requires consistency in estimating, accumulating and reporting costs. The University of Alabama must comply with the following four CAS standards:

- **CAS 501**-- Consistency in estimating, accumulating and reporting costs. The purposes of this standard are to (1) assure consistency in estimating, accumulating, and reporting costs as well as (2) provide a basis for comparison of such costs. The same practices should be used when estimating costs for the proposed budget, accumulating costs in the accounting system and reporting costs to the sponsor.
- **CAS 502**-- Consistency in allocating costs incurred for the same purpose. The University is required to charge similar costs in the same manner, either as direct costs or indirect costs. The University's policy regarding some common types of costs can be found in a table in section 8, Costing Guidelines for Sponsored Projects.
- **CAS 505**-- Accounting for unallowable costs. This standard does not include additional guidance on unallowable costs. Educational institutions will, therefore, continue to follow A-21 for guidance on what is unallowable. For a listing of unallowables, please see Federal Unallowables in section 8, Costing Guidelines for Sponsored Projects.
- **CAS 506**-- Cost accounting period. An educational institution must use either its fiscal year or a fixed annual period approved by the government as its cost accounting period. The University uses its fiscal year which is October 1st - September 30th.

**Cost Reimbursable Contract**-- A cost reimbursable contract provides for payment to the University based on the University's actual cost experience in performing and completing the contract.

**Cost Sharing**-- The sharing of the costs of a sponsored agreement by the University. Cost
sharing is typically done on grants, not contracts. Cost sharing can either be provided by released time, cash, indirect cost differential, or a combination of all. Cost sharing accomplished through the first two (release time and cash) must be recorded in a University cost sharing account.

**Direct Cost**-- Cost that can be clearly identified and directly allocated to a specific sponsored agreement. A more detailed definition is found in the Direct Costs section of part 8, Costing Guidelines for Sponsored Projects.

**Disbursement**-- Payment made by the University for goods and services.

**Encumbrances/Obligations**-- The dollar amount of items ordered, services rendered, contracts awarded, or similar purchases that are outstanding or unpaid.

**Equipment**-- Items, non-expendable in nature, such as furniture, instruments, or repairable machines with a useful life of more than two (2) years. Effective October 1, 2005 the University's equipment threshold is $5,000.

**Fixed Price Contract**-- A firm fixed price contract provides for a payment to the University that is not subject to any adjustment on the basis of the University’s cost experience in performing and completing the contract, i.e., billings are not based on actual expenditures. Note: Residual funds remaining at the end of the project will be transferred to the P.I./P.D.'s appropriate research overhead account. If the instrument is also a fee-for-service type agreement, it is likely that it is unrestricted funding which should be recorded as sales and services of educational activities and does not require a C&G account number.

**Indirect Cost**-- Costs associated with sponsored projects that cannot be clearly identified with or allocated to an individual project. A more detailed definition is found in the Indirect Costs section of part 8, Costing Guidelines for Sponsored Projects.

**Office of Management and Budget Circulars** - (OMB)

- **OMB A-21** -- This circular establishes principles for determining allowable costs applicable to grants, contracts and other agreements with educational institutions. All federal agencies that sponsor research and development, training, and other work at educational institutions shall apply the provisions of this circular in determining allowable costs. The principles shall also be used as a guide in the pricing of fixed price or lump sum agreements.
- **OMB A-110** -- This circular establishes uniform administration requirements for federal grants and agreements awarded to institutions of higher education, hospitals, and other non-profit organizations.
- **OMB A-133** -- This circular establishes audit requirements for federally sponsored awards and defines federal responsibilities for implementing and monitoring higher education and other non-profit institutions that receive federal awards.

**Principal Investigator / Project Director** - (P.I. / P.D.) -- Institutional employee that has
direct responsibility for carrying out the requirements of a sponsored project, for producing the final technical report and for providing the required deliverables.

**Pre-Award & Post-Award**

**Pre-Award** is considered to be activity prior to official funding of a sponsored agreement. These activities are performed by the Office for Sponsored Programs and includes the following pre-award functions:

- Proposal development, coordination, and submission to funding agency;
- Identify funding sources.

After funding, the Office for Sponsored Programs requests agency prior approval for:

- Certain budget amendments;
- Program changes;
- No-cost extensions.

More information on the Office for Sponsored Programs can be found at [http://www.osp.ua.edu/](http://www.osp.ua.edu/).

**Post-Award** activity begins with the official funding and continues until the award is closed. Post-award activities are performed by The Office of Contract and Grant Accounting and are detailed in the Services section of this handbook.

The life of a sponsored agreement begins with the University professor. He or she takes a workable idea and transforms the idea into a written proposal. The Office of Sponsored Programs coordinates the proposal and submits the proposal to the potential funding agency. The agency either accepts or rejects the proposal. Accepted proposals are funded and notifications of acceptance by the agency are sent to The Office of Sponsored Programs. The Office of Sponsored Programs notifies Contract & Grant Accounting and the professor that the proposal has been funded. Contract & Grant Accounting communicates to the professor the new account number assigned to the award. Contract & Grant Accounting remains actively involved until the award is officially closed.

**Project**—The services or activities, mutually agreed upon, that the sponsored funding recipient will provide for a specified period of time.

**Project Award**—The approval and funding of a project as detailed in the official award document. Specifies the amount of funding, project period, and any special requirements or restrictions.

**Sponsored Agreement/Award**—Any contract, grant, or other agreement where the use of funds is restricted by the funding agency and there is some action required by the University (not a gift and not a fee-for-service contract).
Supplies-- Expendable items having a purchase price of less than $2,000 that will be consumed, worn out, or will otherwise deteriorate in less than two years.

Total Project Cost-- The cost of a sponsored project is comprised of allowable direct costs associated with the project performance and the allocable portion of the allowable indirect costs of the institution. This includes both the sponsor's share and the University's share (matching or cost share).

Unallowable Cost-- For purposes of OMB Circular A-21, an expense that cannot be included in the facilities and administrative cost rate proposal and cannot be charged as a direct cost to federal sponsored agreements. See the Federal Unallowables section in part 8, Costing Guidelines for Sponsored Projects, for more information and a list of costs specifically excluded by government regulations.

Unit Cost Contract-- A unit cost contract provides for payments to the University based on the services provided for a particular unit or units produced. These payments are not subject to any adjustments based on the University's actual cost experience. This is a particular type of fixed price contract (see definition above).

4. Budget Issues

Original Budget

The original budget that was submitted and approved by the funding agency is established in the University's accounting system by the appropriate C&G accountant.

Revision of Budget and Program Plans

A-110, section 25 (c)(1-8), states "For nonconstruction awards, recipients shall request prior approvals from Federal awarding agencies for one or more of the following program or budget reasons.

1. Change in the scope or objective of the project or program (even if there is no associated budget revision requiring prior written approval).
2. Change in a key person specified in the application or award document.
3. The absence for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator.
4. The need for additional federal funding.
5. The transfer of amounts budgeted for indirect costs to absorb increases in direct
costs, or vice versa, if approval is required by the Federal awarding agency.


7. The transfer of funds allotted for training allowances (direct payment to trainees) to other categories of expense.

8. Unless described in the application and funded in the approved awards, the subaward, transfer or contracting out of any work under an award. This provision does not apply to the purchase of supplies, material, equipment or general support services."

All requests for budget revisions that require prior approval from the funding agency should be forwarded to the Office of Sponsored Programs. If and when the revision is approved by the agency, OSP will notify the appropriate P.I./P.D. and C&G Accounting.

Any budget change must include an adequate explanation which answers the following questions:

- Why are funds available in the current line item?
- Why are funds needed in the new line item?

Note: Seldom can the University approve shifting of funds for tuition, stipends, or any type of participant funding without prior approval from the awarding agency.

5. Travel

Travel reimbursement on federal and federal pass-through sponsored agreements are subject to the following:

- When traveling by air, a "U.S. flag air carrier" must be used. However, an exception will be made for international flights where a U. S. flag air carrier is not available.
- Sufficient explanation on travel vouchers must include the purpose of travel as it relates to the scope of work for which the sponsored agreement is awarded.

Please refer to The University of Alabama's Travel Policies for additional information and/or University policy requirements before you travel.
6. Equipment
Please see Logistics & Property Management Policies and Procedures Manual

7. Payroll and Effort Reporting

Salary Subcode Position Numbers for Contracts and Grants

When preparing personnel action (PA) forms for C&G (5-ledger) and cost share (2-81) accounts, please use the following position numbers:

<table>
<thead>
<tr>
<th>Subcode Description</th>
<th>Expenditure Subcode</th>
<th>Range of Position Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exec Admin</td>
<td>2100</td>
<td>701-750</td>
</tr>
<tr>
<td>Faculty Admin</td>
<td>2210</td>
<td>701 - 750</td>
</tr>
<tr>
<td>Faculty Research</td>
<td>2220</td>
<td>701 - 750</td>
</tr>
<tr>
<td>Faculty Instruction</td>
<td>2230</td>
<td>701 - 750</td>
</tr>
<tr>
<td>Faculty - Supplemental</td>
<td>2299</td>
<td>701 - 750</td>
</tr>
<tr>
<td>Professional - Nonfaculty</td>
<td>2300</td>
<td>751 - 760</td>
</tr>
<tr>
<td>Secretary/Clerical</td>
<td>2400</td>
<td>761 - 770</td>
</tr>
<tr>
<td>Student Assistant</td>
<td>2500</td>
<td>771</td>
</tr>
<tr>
<td>Graduate Teaching Assistant</td>
<td>2520</td>
<td>772 - 847</td>
</tr>
<tr>
<td>Graduate Student</td>
<td>2530</td>
<td>772 - 847</td>
</tr>
<tr>
<td>Graduate Student (not enrolled in summer school)</td>
<td>2550</td>
<td>772 - 847</td>
</tr>
<tr>
<td>Undergraduate Student</td>
<td>2540</td>
<td>848</td>
</tr>
<tr>
<td>Maintenance</td>
<td>2600</td>
<td>849 - 924</td>
</tr>
</tbody>
</table>
Availability of Funds-- Before forwarding PA forms to C&G Accounting, please check for adequate subcode and position number funding. If funding is inadequate, attach a budget change to fund the appropriate subcode and/or position number.

Retroactive Personnel Action Policy (Retro PA's)

Retroactive PA forms, changing allocation of effort, will not be processed against a contract or grant once the effort for the affected period has been certified.

- For faculty, Fall semester is certified in January, Spring semester is certified in June, and Interim and Summer are certified in September.
- Monthly employees' time and effort are certified in October and April.
- Biweekly employees' time and effort are certified with each time card. Changes to biweekly time and effort can be made only within six months of the original payroll or prior to the end of an academic year, whichever comes first.

Exceptions to the policy may be granted when dictated by unusual circumstances which are documentable and supportable to the appropriate funding agency. Typically, an exception is granted when an award for a period is received subsequent to the effort certification of the period. In this case, however, the effort should be charged to a cost share account until the award is received.

No exception will be made when the only reason for the retroactive adjustment is because funds are available in the contract or grant. Timely attention to accounting is required and adjustments to payroll charges made before the time and effort is certified.

Effort Reporting

General

The University of Alabama requires certification of the percentage of time (i.e. effort) that each employee devotes to sponsored projects. There are several reasons for this policy. OMB Circular A-21 requires that each institution maintain an accurate system for reporting the percentage of time that employees devote to federally sponsored projects as a condition to receive federal funding. Federal and state agencies, private foundations, industry, and other organizations provide significant funding to enable the University to conduct research, public service, and training projects. The University's effort reporting system assures these external sponsors that funds are properly expended for the salaries and wages of those individuals working on the projects they sponsor. It provides the principal investigator means for certifying that the salaries and wages charged to sponsored projects are consistent with the effort contributed. All employees involved in certifying effort must understand that severe
penalties and funding disallowances could result from inaccurate, incomplete, or untimely effort reporting.

**Policies and Procedures**

- **Production and Distribution:** Information included on the effort reports is obtained from the HRS, Payroll, system. The reports are distributed by Contract and Grant Accounting to the Schools and Colleges (except for the College of Arts and Sciences in which some departments receive their effort reports directly from C&G Accounting) within 15 days of the end of the period being certified.

- **Review:** The actual effort devoted to sponsored projects must be the determining factor for charging the appropriate salaries and wages to those sponsored projects. It is inappropriate to charge sponsored projects for effort not devoted within the University’s effort certification period.
  - **100% Effort:** Each effort report is based on 100% of the individual's effort. The 100% includes all time spent conducting University business (except for faculty supplemental work). Work performed by faculty while on vacation or during off-hours is included in the 100%. For hourly paid positions, 100% effort consists of the total hours worked, including overtime. Students expend 100% of their effort in the sum total hours worked in their appointment(s). For example, a graduate assistant who has two 25% appointments would spend approximately 50% of his/her effort on one appointment and approximately 50% on the other for a total of 100%.
  - **Cost sharing:** If a quantified cost sharing commitment is made in the proposal, either in the budget or in the narrative, at the time of the award it becomes committed cost sharing whether mandatory (required by the sponsor) or voluntary. If cost sharing in the proposal is not quantified (e.g., the resources available to support the project are described but their dollar value is not included), it is not considered committed cost sharing and is not included in the effort reporting requirements.
  - **Variances:** The federal government recognizes that measuring effort is not an exact science. The University’s threshold for complying with the requirements while allowing for the approximation involved is 5%. Actual effort, therefore, can differ from that on the effort certification by up to 5% without necessitating a correction.

- **Corrections:** When a correction is necessary, the incorrect percentages are to be crossed out and the correct percentages written beside them, in ink, in the "Exceptions" column. White-out or erasure-type changes are not acceptable for audit purposes. Only the person who signs the effort statement is authorized to certify changes made to the report. It is acceptable for a budget coordinator to mark necessary changes on the report prior to giving it to the individual for formal certification. If a correction is updating the report for a PA that has already been completed and sent to payroll, that PA should be referenced on the report (e.g. "Please see superceding PA dated 11/16/01."). Otherwise, a superceding, retroactive PA should accompany the corrected effort certification report when returned to C&G Accounting.
Signature/Certification:

- **Who:** Signing confirms that effort, as certified, reasonably represents the effort expended by the employee during the certification period. Effort reports must be certified by either the employee or by an individual having direct knowledge of the employee's total effort for the period. For employees who work in multiple departments, it is recommended that they sign their own reports. If this is not practical, the PIs and/or supervisors in each of the departments involved should verify together the total amount of effort performed on each account during the period. Multiple signatures can occur but only as a coordinated effort by the PIs and/or supervisors.

- **How:** The effort reports must be signed and dated in ink. Initials, stamps, and facsimiles are not acceptable for audit purposes. Once signed, changes to the effort report require that the person sign again and initial and date the change.

Return of Certifications: Each School and College is responsible for ensuring that appropriate certification is obtained (including the certifying signature). The procedures followed by each School and College can be found at [http://osp.ua.edu/Effort%20Procedures%20By%20School.html](http://osp.ua.edu/Effort%20Procedures%20By%20School.html). These procedures should allow for return of all certifications to C&G accounting within 30 days of the end of the period being certified.

Follow-up: C&G Accounting will log-in returned certifications and will forward corrections to Payroll. Payroll will notify C&G when corrections have been made. C&G will monitor to ensure that all corrections are made.

If effort certifications are not received by C&G in a timely manner, C&G will contact the responsible administrators according to the following timeline:

- 45 days after the end of the period being certified -- effort coordinator.
- 60 days after the end of the period being certified -- effort coordinator and Department Chair or Unit Director.
- 75 days after the end of the period being certified -- effort coordinator, Department Chair or Unit Director, and Dean or other appropriate supervisor.
- 90 days after the end of the period being certified -- effort coordinator, Department Chair or Unit Director, and Dean or other appropriate supervisor (again). Absent extenuating circumstances, the Director of Contract and Grant Accounting may also elect to suspend expenditure activity on any grant for which appropriate certification has not by this time been obtained.
8. Costing Guidelines for Sponsored Projects

The basic regulations for determining the costs of federally sponsored agreements at educational institutions are set forth in Office of Management and Budget (OMB) Circular A-21: Cost Principles for Educational Institutions. The Circular can be found at http://www.whitehouse.gov/omb/circulars/a021/a021.html. Effective May 8, 1996, Circular A-21 was revised to incorporate four Cost Accounting Standards applicable to educational institutions (see Cost Accounting Standards in section 3, Definitions of Terms, for a list of the standards). These were issued by the Cost Accounting Standards Board (CASB) on November 8, 1994. The revision also required certain institutions to disclose their accounting practices by the submission of a disclosure statement (DS-2) prescribed by CASB. The University of Alabama has submitted a DS-2 and, although it has not yet been reviewed and approved by the federal government, the University is required to follow the practices disclosed therein.

This section is intended to convey some of the most significant requirements of A-21 and the accounting practices the University follows in order to comply with them. The federal government, and therefore the University, places the primary responsibility for meeting these requirements with the Principal Investigators (PI's) of sponsored projects. Department heads and college fiscal officers should be able to provide guidance to and oversight of research units. University administration is responsible for guidance and training and for insuring compliance through periodic internal and external audits. See section 11. CAS Training for information regarding available training in the implementation of Cost Accounting Standards at UA.

All costs charged to the federal government must meet the following criteria:

1. They must be reasonable -- A prudent person would have purchased the item and paid the same price given the circumstances at the time.
2. They must be allocable -- The goods or services involved are chargeable or assignable to the sponsored agreement in accordance with the relative benefits received.
3. They must be given consistent treatment -- The expenditure must be treated the same way (throughout the University) as those that are for a similar purpose, in like circumstances.
4. They must not be unallowable -- The expenditure must not be specifically excluded by government regulations or sponsored agreement requirements.

Allocable Costs

A cost is allocable if it benefits only one project or activity, if it "benefits two or more projects or activities in proportions that can be determined without undue effort or costs," or if it "benefits two or more projects or activities in proportions that cannot be determined because
of the interrelationship of the work involved” (A-21, C.4.d(3)). When the cost pays for something that benefits two or more projects or activities and, without undue effort or administrative expense, a distribution can be devised which reasonably reflects the proportional distribution of the benefit of the cost, the cost should be allocated based on the proportional benefit. When the cost is clearly a direct cost of a group of projects but the projects are scientifically or technically related such that the proportional benefit rule is impractical, the cost may be distributed among the projects on "any reasonable basis." (A-21, C.4.d(3))

**Consistent Treatment of Costs**

The operation of the University requires costs that pertain to specific projects as well as general costs. For administrative and accounting purposes these costs are grouped into two categories – direct and indirect. Some costs, however, are not discretely direct or indirect and may appear in either category, depending on the circumstances. The University's DS-2, "by distinguishing between direct and indirect costs, and by describing the criteria and circumstances for allocating those items which are sometimes direct and sometimes indirect, will be determinative as to whether or not costs are incurred for the same purpose."

**Direct Costs**

Circular A-21 states, "Direct costs are those costs that can be identified specifically with a particular sponsored project, an instructional 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." (A-21, D1)

The above statement implicitly makes the point that charges to a sponsored project should support the project's purpose and activity and represent those costs necessary to meet the project's scientific and technical requirements. Such charges cannot be assigned arbitrarily or for the purpose of simplified budget management that is unrelated to the sponsored agreement's purpose.

Additional Criteria for Determining Direct Costs:

1. **The cost must be included in the awarded budget, or the cost must be permitted within rebudgeting authority granted by the sponsor.** When preparing applications for sponsored projects, the PI usually submits a detailed budget. This budget includes line items such as salaries and wages, benefits, travel, supplies, and other direct costs. The award reflects approved budgeted items and becomes a part of the agreement between the University and the sponsor. Only those costs that are included in the budget or rebudgeted costs allowed by the sponsor should be charged. If the cost requires institutional and/or sponsor prior approval after the award is made, the approval must be secured before the cost is incurred.
2. **The cost must not be restricted by the sponsor.** Costs that are restricted or unallowable as indicated in the award notice or sponsor guidelines may not be charged to a sponsored project.

**Acceptable Direct Costs**

Please refer to the table below for examples of acceptable direct costs and normally indirect costs. Direct costs must meet A-21 requirements cited above and be "identifiable to a particular cost objective" (A-21, F.6.b). The "particular cost objective" requirement means that costs cannot be directly charged if they are incurred for the benefit of research in general or the interest of the researcher in general. They must be clearly identified with the work of a particular project or group of projects.

<table>
<thead>
<tr>
<th>Direct Costs</th>
<th>Indirect Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-administrative Salaries, Wages,</td>
<td>Administrative and Clerical Salaries, Wages,</td>
</tr>
<tr>
<td>Fringe Benefits, such as:</td>
<td>Fringe Benefits, such as:</td>
</tr>
<tr>
<td>-principal investigator</td>
<td>-fiscal officer</td>
</tr>
<tr>
<td>-research assistant</td>
<td>-secretary</td>
</tr>
<tr>
<td>-technician</td>
<td>-department administrator</td>
</tr>
<tr>
<td></td>
<td>-post doc.</td>
</tr>
<tr>
<td></td>
<td>-accountant</td>
</tr>
<tr>
<td>Animals and Animal Care</td>
<td>-staff assistant</td>
</tr>
<tr>
<td>Auto Rental</td>
<td>-administrative staff officer</td>
</tr>
<tr>
<td>Consultants</td>
<td>Computer Hardware (General Purpose)</td>
</tr>
<tr>
<td>Duplicating</td>
<td>Dues &amp; Memberships</td>
</tr>
<tr>
<td>Equipment (Technical &amp; Scientific)</td>
<td>Equipment (General Purpose)</td>
</tr>
<tr>
<td></td>
<td>-copier</td>
</tr>
<tr>
<td></td>
<td>-office furniture</td>
</tr>
<tr>
<td>Maintenance/Repair - Scientific</td>
<td>Maintenance/Repair - General Purpose</td>
</tr>
<tr>
<td>Equipment</td>
<td>Equipment</td>
</tr>
<tr>
<td></td>
<td>-Scientific Equipment</td>
</tr>
<tr>
<td></td>
<td>-General Purpose Equipment</td>
</tr>
<tr>
<td></td>
<td>Meals &amp; Refreshments</td>
</tr>
<tr>
<td>Page Charges/Reprints/Reference</td>
<td>Printing</td>
</tr>
<tr>
<td>Materials</td>
<td></td>
</tr>
<tr>
<td>Freight/Other Transportation</td>
<td>Postage</td>
</tr>
<tr>
<td>-UPS, FedEx</td>
<td></td>
</tr>
<tr>
<td>-Priority Mail</td>
<td></td>
</tr>
<tr>
<td>Rental of Space or Equipment (Non-</td>
<td></td>
</tr>
<tr>
<td>University owned)</td>
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</tr>
</tbody>
</table>
Service/Recharge Center Charges

<table>
<thead>
<tr>
<th>Materials &amp; Supplies</th>
<th>Office Supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>- chemical laboratory</td>
<td>- transparencies</td>
</tr>
<tr>
<td>- gases</td>
<td>- staples</td>
</tr>
<tr>
<td>- radioisotopes</td>
<td>- computer software</td>
</tr>
<tr>
<td></td>
<td>(general)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Telephone Charges - Long Distance</th>
<th>Telephone Charges - Basic</th>
</tr>
</thead>
<tbody>
<tr>
<td>- basic line charge</td>
<td>- pagers</td>
</tr>
<tr>
<td>- local calls</td>
<td>- voice mail</td>
</tr>
</tbody>
</table>

Documentation of Direct Costs

A. The cost must be identified with activity in the sponsored agreement to which the cost is charged. For example:
   1. Long Distance telephone and fax costs should be linked to the sponsored agreement by means of a manual log or analyzing the long distance phone bill and allocating costs.
   2. Purchases for a specific sponsored agreement must identify the grant's account number on the requisition, purchase order, or other payment document.

B. Documentation that links the cost incurred to the sponsored agreement activity should be done by someone who is in a position to know the sponsored agreement activity; e.g., the person who is making the long distance telephone call or the person designated by the principal investigator to purchase goods and services for that particular project.

C. Documentation must be maintained for a period of three years following the date the final expenditure report is submitted to the sponsor. If any litigation, claim or audit is started before the expiration of the three year period, the records must be retained until all issues are resolved and final action taken.

D. Only actual costs may be charged to the sponsored agreement.

Unacceptable Direct Costing Practices

The following direct costing practices are unacceptable because they do not meet A-21's standard for a "high degree of accuracy" in the assignment of costs to sponsored agreements:

1. Rotation of charges among sponsored agreements by month without establishing that the rotation schedule credibly reflects the relative benefits to each sponsored agreement;
2. Assigning charges to the sponsored agreement with the largest remaining balance;
3. Charging the budgeted amount rather than charging an amount based on actual usage;
4. Assigning charges to a sponsored agreement in advance of the time the cost is actually incurred;
5. Identifying a cost as something other than what it actually is, such as classifying a supply as an item of equipment;
6. Charging expenses exclusively to sponsored agreements when the expense has supported non-sponsored agreement activities;
7. Direct assignment of charges that are part of normal administrative support (indirect costs) of sponsored agreements (e.g., accounting, payroll).

Indirect Costs or Facilities and Administrative (F&A) Costs

Indirect costs are defined in A-21 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." (A-21, E1.) These costs are also referred to as "Facilities and Administrative" and are comprised of 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." (A-21,F.1.)

At the college and department level "salaries of administrative and clerical staff...(and) items such as office supplies, postage, local telephone cost, and memberships shall normally be treated as F&A costs." (A-21, F.6.B) Costs incurred for the same purpose in like circumstances must be consistently treated by the University as either direct or indirect.

Charging Normally Indirect Costs to Sponsored Projects

A-21 does not absolutely prohibit costs identified by the institution as normally indirect from being charged directly to a sponsored agreement. However, strict criteria must be met.

Costs normally treated by the University as indirect may be charged to a sponsored project when ALL of the following conditions are met:

1. The costs can be readily identified specifically with the project with a high degree of accuracy; and
2. The costs are incurred for a different purpose or circumstance, as described in the section below titled "Special Purposes or Circumstances where Direct Charging of Costs Normally Treated as Indirect Costs May Be Appropriate".
3. The cost is explicitly budgeted, with justification, and awarded:
   a. The cost is separately budgeted in the proposal budget (note that for certain fixed-price funding arrangements a detailed budget is not required by the
sponsor, however, the internal budget should reflect the cost);
b. The budgeted amount reflects a realistic estimate of the cost and, in the case of 
salary, the percent of effort;
c. A reasonable justification is given for the cost. In the case of federal agency 
sponsors the "Budget Justification" section of the proposal should state that the 
costs are normally treated as indirect by the institution, but are being requested 
due to a special purpose or circumstance. A detailed explanation of the special 
purpose or circumstance must be clearly outlined in the "Budget Justification" 
section.
d. The sponsor approves the item in the award. Since these items are specifically 
set forth in the proposal, it is assumed that the sponsoring agency has 
approved this exceptional treatment of administrative and clerical salaries or 
other costs normally treated as indirect if they accept the proposal, fund the 
project and do not prohibit the cost on the notice of award. It is the principal 
investigator's responsibility to notify the Office for Sponsored Programs (OSP) 
of any changes made to the proposed budget in preaward negotiations with the 
sponsor in which OSP did not participate. Note that the determining factor in 
classifying salaries of administrative and clerical staff as direct costs must 
relate to the different work they perform to meet the exceptional requirements 
of the project as compared to that of administrative and clerical staff who 
perform work related to routine departmental or general institutional 
administration. Generally, a project that requires more of the same type of 
administrative support as that required for routine departmental or institutional 
administrative support would not meet the criteria of a different purpose and 
circumstance.

Special Purposes or Circumstances Where Direct Charging of Costs Normally Treated as Indirect Costs 
May Be Appropriate

- Special Purposes -- Charging a normally indirect cost as a direct charge to a 
sponsored project may be approved when the purpose for the item is unlike that for 
which it is normally used. In order to meet documentation requirements, an 
explanation of the unlike purpose must be provided to Contract and Grant Accounting 
by the department for each case.
- Special Circumstances -- Charging normally indirect costs as direct charges to a 
sponsored project may be approved for projects that involve the following 
circumstance: Please note that one through three refer to the primary source of 
funding (i.e. not the pass through of federal funds by these types of sponsors).
  1. Industrial/Commercial -- Projects sponsored by these organizations are 
     proposed and awarded for the joint benefit of the sponsor and the University. 
     Direct and indirect costs are assigned to projects based on the agreement 
     between the sponsor and the University.
  2. Foundations and Non-For-Profit Agencies and Associations -- Projects 
     sponsored by these organizations are proposed and awarded for the joint 
     benefit of the sponsor and the University. Direct and indirect costs are assigned 
     to projects based on the agreement between the sponsor and the University.
The guidelines of these organizations specify the costs to be charged to a project.

3. State Sponsored Agreements -- The University complies with state agency regulations and statutory requirements.

4. Training Grants -- Since training grants are for a different purpose (training) than a traditional research project, these project budgets may include costs that are normally considered to be indirect costs. Training grants usually identify a line item budget for "institutional allowance" which authorizes direct charging of normally treated indirect costs as appropriate if they are reasonable, specifically identified with the project, and budgeted in the award.

5. Geographically Inaccessible Projects -- Projects that are geographically inaccessible to normal departmental administrative services (i.e., a project that takes place in site(s) remote from campus).

6. Projects That Require Travel and Meeting Arrangements -- Projects that require travel and meeting arrangements such as, but not limited to, conferences, continuing education, workshops, and seminars for large numbers of participants.

7. Projects Involving Large, Complex Programs -- Large, complex programs, where size, nature, and complexity of the activity goes well beyond the normal departmental support or there is a functional difference in work by individuals in the same job class. Examples include program project grants, center grants, grant for the Experimental Programs to Stimulate Competitive Research (EPSCOR), and other sponsored agreements and contracts that entail assembling and managing teams of investigators.

8. Projects Which Involve Extensive Data Management -- Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting. For example, if a project requires substantial mailing expenses in the performance of the project activities or technical work, postage should be charged as a direct cost of the project.

9. Projects Involving Extensive Reports -- Projects whose principle focus includes the preparation and production of manuals, large reports, and books. (excluding routine progress and technical reports), software and multimedia material.

10. Other Sponsored Activities (Not Research or Instruction) -- Funded projects which are beyond the traditional instructional and research responsibilities of an academic unit. These activities primarily provide services beneficial to individuals and groups external to the Institution. Examples include activities such as public service workshops and community development.

To request an exception to the University’s cost accounting policies, when made appropriate due to one of the circumstances listed above, a "Justification for the Direct Charging of a Normally Indirect Cost" form should be obtained from the Office for Sponsored Programs. This form should be completed during the proposal process but may be considered when completed later.

Federal Unallowables
Federal cost policies dictate that certain expenditures be given special accounting treatment. Even if not directly charged to the federal government or reported as cost sharing (i.e. charged instead to a departmental operating account), expenditures considered to be federal unallowable costs must be separately identified in the accounting records so that they can be excluded from the University's cost in the preparation the Facilities and Administrative Cost Rate Study. Federal unallowable costs fall into two categories, those costs unallowable in and of themselves (such as entertainment) and costs incurred for purposes that are unallowable. These unallowable purposes are as follows:

- Advertising and public relations costs;
- Alumni activities;
- Commencement and convocation costs;
- Entertainment costs;
- Fund raising costs;
- Lobbying.

For a detailed definition of each federal unallowable, including exceptions, please see section I. E., "Special Accounting Treatment" in The University of Alabama Spending Policies.

Any cost that is otherwise an allowable expenditure for the University but is incurred for one of the above purposes must be accounted for in the subcodes listed below:

**Federal Unallowable Subcodes**

<table>
<thead>
<tr>
<th>Type Expenditure</th>
<th>Subcode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional Services</td>
<td>4019</td>
</tr>
<tr>
<td>Honorarium</td>
<td>4059</td>
</tr>
<tr>
<td>Advertising</td>
<td>4119</td>
</tr>
<tr>
<td>Postage</td>
<td>4139</td>
</tr>
<tr>
<td>Telephone</td>
<td>4149</td>
</tr>
<tr>
<td>Reproduction/Publication</td>
<td>4159</td>
</tr>
<tr>
<td>Travel</td>
<td>4209</td>
</tr>
<tr>
<td>Rentals</td>
<td>4359</td>
</tr>
<tr>
<td>Laundry</td>
<td>4389</td>
</tr>
<tr>
<td>Supplies</td>
<td>4509</td>
</tr>
<tr>
<td>Conferences/Meetings</td>
<td>4919</td>
</tr>
<tr>
<td>Other</td>
<td>4999</td>
</tr>
</tbody>
</table>

**Cost Overruns, Disallowed Costs**

When it is determined that a 5-ledger or cost share account is over budget or that disallowed
costs have been incurred on the account, Contract & Grant Accounting will transfer these charges to a voluntary cost share account and fund the expenditure from the appropriate departmental account.


Service Center Policy

Please see Service Center Policy

Signature Authority

Processing of vouchers, departmental transfers, personnel action forms, etc., require at a minimum the signature of the principal investigator/project director for which the award is funded. Departments may impose additional signature requirements.

Spending Policy

Please see The University of Alabama Spending Policies.

10. FY 06 - 2008 Indirect Cost Rates

The indirect cost rate agreement covering Fiscal Years 2006 - 2008 was negotiated by the University of Alabama with the Department of Health and Human Services (DHHS), acting on behalf of the federal government and its agencies. A breakdown of all applicable indirect cost rates is listed below.

The indirect rates listed below have been negotiated on a modified total direct cost base (MTDC) which excludes such costs as equipment, other capital expenditures, charges for patient care and tuition remission, rental costs of off-site facilities, scholarships and fellowships, as well as the portion of each subgrant and subcontract in excess of $25,000.

For the period October 1, 2005 - September 30, 2006 or until amended
On-Campus Research 43%
Off-Campus Research 26%
On-Campus Instruction 55%
Other Sponsored Activity 26%

For the period October 1, 2006 - September 30, 2009

On-Campus Research 44.5%
Off-Campus Research 26%
On-Campus Instruction 55%
Other Sponsored Activity 27%

11. CAS Training

A schedule for and policies regarding training are being developed. To download the most recent Powerpoint presentation prepared for the April 28, 2000 training session and for updates regarding additional training, see the Contract and Grant Accounting Training web page at http://osp.ua.edu/cgatraining.html.

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