

ORDA Administrative Policy

Costing Practices for Sponsored Projects

This administrative policy addresses ORDA's costing and budgeting practices, particularly the:

- appropriateness, reasonableness, and inclusion of direct costs in budgets,
- treatment of costs as direct or indirect costs in sponsored project budgets, and
- requirements to charge indirect costs (IDC) to sponsored programs.

It also provides guidance on the appropriate IDC rates that should be used, the required process when requesting a waiver of IDC, and the University's practice for cost sharing.

Allowability, Reasonableness and Assignment of Costs

When Eastern Michigan University receives an award from a sponsor for a specific program or project, the University is required to manage those funds in a way that ensures all costs are either: 1) directly related to the project, or 2) allowable indirect costs charged in accordance with EMU's federally negotiated Facilities and Administrative Costs (F&A) rate agreement, Sponsor's limits on Indirect Cost, or other standard practices established by EMU. This is accomplished in several ways and starts with a proposal budget that is reviewed and approved by the Office of Research Development and Administration (ORDA) prior to submitting the proposal to the Sponsor. When funds are awarded, EMU segregates the budget, expenses and revenue for each award in its own restricted grant fund, allowing for proper institutional oversight. The PI of record is assigned the fiscal and programmatic responsibilities of carrying out the project in compliance with the award terms and conditions, and University policies and procedures.

EMU receives a substantial portion of its sponsored activity through federal awards. When accepting these funds, EMU agrees to abide by federal regulations governing the allowability of specific items of cost. Federal Uniform Guidance (2 CFR 200) requires, also, that EMU apply federal cost principles to all costs for sponsored projects (both federally sponsored and non-federally sponsored) and that University policies and procedures be applied consistently to internal and external funds alike.

Budgeting of Direct Costs Items

Allowability

All direct costs included in the budget must be allowable under federal regulations, including the Sponsor's own agency and program specific terms and conditions. They must also be allowed under University policies and procedures. To be an allowable direct cost on sponsored project budgets, costs must be:

- Reasonable and necessary for the project
- Allocable to a specific sponsored program
- Treated consistently as part of the University direct cost pool in its F&A Rate proposal, and

- Conform to any limits or exclusions set forth in federal regulations, the terms and conditions of the sponsored award, or University policy.

2 CFR 200, Subpart E – Cost Principles articulates in detail the appropriateness of particular elements of cost. Sections 200.420 – 200.476 can be reviewed by the Principal Investigator/Project Director (PI/PD) to determine if an item of cost is allowable under federal cost principle. Remember, however, even if it is allowable under the federal regulations, it must be allowed by the University as well. If the cost is questionable, the PI should consult with ORDA before including it in the budget.

Typically, the following items are included in budgets for sponsored projects as direct costs:

- Compensation of employees whose service provides a direct benefit to the sponsored program, including fringe benefits associated with their effort.
- Costs of materials expended or consumed for the direct benefit of the project.
- Travel in accordance with Sponsor rules (2 CFR 200.474) and Eastern Michigan University policy.
- Other allowable items or expenses that were incurred for direct benefit to the sponsored program.

Reasonable and Necessary Costs

To be included as a direct cost to the project, direct costs must be reasonable and necessary. Federal Regulations define a cost as reasonable if the goods and services, and the amount involved, reflect the actions that **a prudent person** would have taken under the prevailing circumstances when the decision to incur the cost was made. EMU looks to the PI to apply this prudent person standard when developing budgets and managing funds for sponsored projects. Important considerations in determining the reasonableness of costs are:

- Is the cost generally recognized as necessary for the performances of the sponsored program?
- Have all of the requirements or restraints by federal or state laws and regulations, sponsored agreement terms, and conditions been satisfied?
- Is the actions taken with respect to the incurrence of cost, consistent with established institutional policies and procedures?

Allocable

A cost is allocable to a particular sponsored program if the goods or services involved can be charged or assigned to the program in proportion with the relative benefit the receives. Every cost incurred must have some direct benefit to the sponsored program being charged and charged proportionately with that benefit. In general, a cost is allocable to a particular sponsored program if it fulfills one of the following conditions:

- It is incurred solely to advance the work under the sponsored program or;
- It is necessary to the overall operation of the institution and is to be assignable in part to sponsored programs.

The proposal budget provides a base estimate for the allocation of costs in a manner that is proportionate to the benefit received by the Sponsored project. Deviating from the plan may require approval from the Sponsor. ORDA can assist PIs with the University process for revising budgets for grant and cost share funds.

Unallowable Costs and Costs Requiring Agency Prior Approval

Federal regulations describe the costs that are eligible for reimbursement under federal grants and contracts (allowable costs), costs that are not eligible for reimbursement (unallowable costs), and costs that require specific approval from the Sponsor. Again, 2 CFR 200.420-200.476 provides a list and explanation of allowable and unallowable costs, as well as the costs requiring prior agency approval. When preparing proposal budgets and justifications, it is essential to include specific language regarding items of cost requiring prior Sponsor approval, such as equipment, international travel, etc. ORDA can assist the PI identify these costs, and craft language that satisfies the prior approval requirement at the budget stage, and prior approvals are incorporated in the award. While the project is underway, it is essential that the PI contact the Program Officer if there is any question about the allowability of an item of cost. Costs determined as unallowable by EMU's Grants Accounting are transferred to discretionary funds in accordance with its [Grant and Contract Overrun Procedure](#).

Inclusion of Indirect Costs (F&A Costs)

As part of the internal review and approval process, ORDA is charged with ensuring that the appropriate overhead costs are charged to sponsored activity at Eastern Michigan University. It is the long-standing policy of the University to include the maximum allowable indirect costs in sponsored project budgets. This administrative policy provides the process by which a PI's Dean, or equivalent, can request a waiver. All waivers must be approved by the Associate Provost and Associate Vice President for Graduate Studies and Research.

IDC Definition

Indirect Costs (IDC), also known as "Facilities & Administrative Costs (F&A)", "administrative costs," or "overhead," on a sponsored project are the costs that are difficult to attribute directly to that specific project. Examples of these costs are:

- Depreciation of buildings and equipment
- Utilities
- Internet and technology
- Library and computing services
- Custodial services
- Departmental support
- Accounting
- Research administration
- General administration and administrative support

IDC is viewed by the federal government as real and legitimate costs that can be charged to sponsored projects. The University negotiates an “Organized Research Rate” for on-campus and off-campus activities regularly with the U.S. Department of Health and Human Services (DHHS). These rates vary from one institution to another and are based on such factors as the cost of doing business in a particular geographical area, the institution's infrastructure for research, faculty salary rates, and the like.

ORDA is charged with enforcing the University's long-standing policy to seek maximum allowable indirect cost on all grants and contracts for sponsored projects. "Maximum allowable indirect cost," however, does not mean that the organized research rate will be applied to all proposals regardless of any other factor. Many funding agencies dictate their own maximum allowable indirect-cost rates, some consider it a negotiated item, and some disallow it altogether. **ORDA will accept a reduced F&A Rate if this limitation is a published policy of the funding agency.** For agencies that consider this a negotiated item, the ORDA Director is authorized to negotiate a lower rate for approval by the Associate Provost and Associate Vice President for Graduate Studies and Research. To ensure that research conducted for the direct benefit of for-profit companies is not subsidized indirectly with taxpayers’ dollars (or student tuition dollars, for that matter) all industry-sponsored research is charged the full Organized Research Rate.

Indirect Cost Distribution

Most universities, EMU included, use a portion of their indirect cost recovery build its research capacity and provide an incentive for to advance externally sponsored activity. This is accomplished by distributing the recovered IDC to various units across campus. Distribution policies vary widely among institutions, but at EMU:

- 40% of all indirect cost recovery goes to the General Fund
- 10% to the Office of Research Development and Administration.

The remaining 50% is distributed to the division in which the grant or contract originated. The divisional share may be further subdivided according to a divisional policy. Within the Division of Academic Affairs, for example, the division’s share of indirect costs are redistributed as follows:

- PI/PD: 10%,
- PI’s/PD’s Department or School: 15%
- PI’s/PD’s College: 15%
- Provost's Office 10%

IDC charges are incurred as other costs are charged to the grant. They are calculated on a daily basis in Banner transferred to individual IDC D-funds. In collaborative projects where there is more than one Investigator at EMU, an allocation for sharing IDC is established and documented in the ORDA budget workbook. This budget workbook is circulated for review and approval prior to submission of the proposal. Changes in the approved allocation requires renegotiating the split and obtaining approvals from all involved units. When developing an allocation, the investigators

may consider things like, the level of effort on the project, the unit which will provide the administrative support for the project.

Waiving Indirect Costs

In some rare cases where a project presents a strong strategic opportunity for the University, the Associate Provost and Associate Vice President for Graduate Studies and Research will consider requests to waive IDC. These requests can be made in writing by a Dean or equivalent on behalf of the Lead PI. Please note that any request to waive IDC should be made well in advance of the ten-day deadline by which complete and final applications are due to ORDA. Any waiver of IDC must be approved by each unit that receives IDC recovery funds (i.e., Division of Business and Finance, Office of Research Development and Administration, Provost, Dean/Assistant Vice President, Department Head/School Director, and the PI(s)).

Cost Sharing

ORDA is required to ensure that all cost share proposed in grant applications complies with the requirements set forth in federal cost sharing regulations (2 CFR 200.306). Following is guidance pertaining to the circumstances in which cost sharing is permitted by EMU and the types of expenditures and assets that can be proposed. In addition, it provides information about the implications that arise when committing cost sharing to a project. In this guidance, "grant" applies to both grants and cooperative agreements received to support sponsored activity. Cost sharing is not generally appropriate for contracted research, particularly with private industry.

Definition: Cost sharing occurs when an item of cost specifically benefits the sponsored project but is not charged against the grant budget. At times the University will direct resources, either in-kind or committed cash, towards the objectives of a grant-funded project. Cost share included in a proposal budget, just like the grant funds, are subject to audit.

Cost share for all grants must be:

- Verifiable by EMU's financial records
- Necessary and reasonable for proper and efficient accomplishment of project or program objectives
- Allowable under the terms and conditions of the Sponsor

In cases of federal grants, cost share:

- Cannot be paid with federal funds under another award, except where specifically authorized by federal statute
- Cannot be included as cost sharing for any other federally funded project or program
- Must be included in the approved budget when cost sharing is required by the federal sponsor
- Must conform with cost sharing provisions of 2 Code of Federal Regulations 200, Section 306.

Types of Cost Share

Cost sharing includes three types:

- Mandatory Cost Sharing/Matching
- Voluntary Committed Cost Sharing
- Voluntary Uncommitted Cost Sharing

Mandatory Cost Sharing is both:

- required by the sponsor as a matter of statute, regulation, or policy
- required by the individual solicitation/program guidelines

Voluntary Committed Cost Sharing

Is not required by the sponsor but proposed by the applicant to demonstrate institutional commitment. An example of voluntary committed cost sharing is when the University commits academic year faculty effort reflecting a commensurate portion of faculty salary and corresponding fringe benefits in the budget that is submitted to the sponsor. Federal cost sharing regulations (2 CFR 200.306(a)) limit an agency's ability to use voluntary committed cost share in the evaluation of proposals only to when it is specified in the notice of funding opportunity (NOFA) and is consistent with agency regulations. In some instances, like the National Science Foundation, the inclusion of voluntary committed cost share is prohibited.

Voluntary Uncommitted Cost Sharing

Is effort above and beyond the effort committed and budgeted for a sponsored project. It is not required by the sponsor, nor offered in a proposed budget by the University. It is not monitored by the University and often is the result of executing a project, as actual effort to carry out the project is greater than what was proposed.

Practice: The University has a long-standing practice of meeting published mandatory cost sharing requirements. Meeting mandatory cost sharing requirements often comes from a mix of in-kind and cash contributions and includes faculty time, graduate assistant tuition remission, and ORDA cash matching funds. Voluntary committed cost sharing, however, limits the University's ability to maximize its reimbursement of grant related costs, restricting its ability to support continued growth of faculty research and scholarly activity. An approach that balances the inclusion of voluntary committed and uncommitted cost sharing with the needs of the project is used to ensure the University's long-term success in growing its sponsored activity. [It is the responsibility of the Principal Investigator to appropriately justify, in the proposal budget narrative, the need for cost sharing.](#)

Both mandatory and voluntary committed cost sharing is included in the denominator base of the Facilities & Administrative cost rate calculation. By increasing this base with committed cost share, the overall F&A rate essentially may be driven down, again, limiting the University's ability to make continued investment in the research enterprise. Voluntary committed cost share should, therefore, be offered only when competitive forces and the institutional benefit of receiving an award warrant the commitment.

Cash and In-kind Contributions

Cost share includes both in-kind contributions, as well as cash contributions. In-kind contributions are costs that provide real value to a sponsored project, but do not require a cash outlay by the University. Items of cost the University would incur regardless of receiving an award that are directed to the benefit of a grant project are considered in-kind contributions. It may include:

- Personnel Costs: Salaries and related fringe benefits for existing personnel, either faculty or other project personnel who hold existing positions with the University
- Laboratory Supplies
- Travel Expenses
- Equipment
- Tuition Remission
- Third party contributions
- Unrecovered F&A costs with prior approval from the awarding agency

Cash contributions may come from the following sources:

- gifts
- endowments income
- ORDA cash match funds

Items that are not appropriate to use as cost share are:

- items of cost pledged as cost share for another funded project
- costs funded by other federal grants
- overages on grants, which is unallowable under 2 CFR 200.403(f)
- unpaid effort that is outside the EMU standard contractual appointment period, (i.e., unfunded summer months for faculty)
- costs that are not necessary or reasonable for the efficient accomplishment of the project
- any cost item that is not allowed on Sponsor funds

Documenting Cost Share

It is essential that the proposal clearly describe how cost shared items are necessary and reasonable for the proper and efficient accomplishment of the project. All cost sharing must be verifiable within the University's financial system and thoroughly documented. Records pertaining to cost sharing must be retained the same period as the financial records for the grant. This generally is three (3) years following the submission of the final financial report or completion of an audit but may be longer.

All committed cost share, both mandatory or voluntary, becomes an official part of the award package. It is essential that it be documented in the budget justification of the proposal, as well as included in the internal budget detail.

Cost Share Commitments and Approvals

Cost share commitments by the University are documented and approved through the Cayuse approval process. Prior to submitting a proposal, a budget is prepared and circulated for review and approval by the Principal Investigator's department, college, and others at the University who are committing resources to the project.

Departmental Approval: A faculty member's Department Head approves any cost sharing of faculty or departmental salary, as well as any in-kind contributions such as supplies and materials or the assignment of a departmental Graduate Assistant to a grant-funded project, in advance of submitting the proposal.

College Approval: The College approves any commitment of its resources to a project, such as space, new faculty lines, or funds for equipment from its budget, prior to submitting the proposal.

Graduate School: The Graduate School has a limited amount of Graduate Assistant tuition remission that can be provided as cost share when a GA stipend is written into the grant. These commitments must be approved by the Graduate School in advance of submitting the proposal.

Office of Research Development: ORDA approves any commitment of University matching funds from its cash match fund prior to submitting the proposal.

Third-Party Contributions: Prior to submitting a proposal that includes third-party contributions, a letter of commitment that identifies the cost shared items, assigns a value to those costs, and is signed by an authorized representative of the collaborating institution must be received by the University.