

## **Grand Valley State University Office of Sponsored Programs Guide to Allowable Costs on Sponsored Projects**

The GVSU of Sponsored Programs (OSP) has developed this Guide to assist Principal Investigators (PI) and Project Directors (PD), administrative and management personnel, OSP personnel, and Office of Grant Accounting (GA) personnel to comply with the University's [Allowable Cost Policy \(SLT 3.11.1\)](#).

The University's accounting system places considerable authority and responsibility for the administrative and financial management of sponsored-projects directly with PI/PDs and their departments. Such a system requires the development of expertise at the unit level and relies upon the compliance of responsible PI/PDs, administrative support staff at the unit level, Deans, unit/department heads, and Center directors.

We have modeled this Guide upon well-established best practices employed by other universities and federal audit findings for determining allowability of costs on federally funded projects. The Guide describes the normal treatment of costs under general circumstances. It does not claim absolute allowability for cost items, because specific situations may warrant exceptions to the treatment of costs. This Guide aims to clarify the rationale for items of costs to assist PI/PDs, department staff, OSP, and GCA to work together and ensure compliance.

The OSP and GA welcome all questions regarding budgeting, appropriate costs, compliance with various policies, and the terms and conditions that may affect specific sponsored projects. Please contact the OSP at 331-6868 or [osp@gvsu.edu](mailto:osp@gvsu.edu), or contact your assigned grant accountant for assistance.

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## I. BASIC PRINCIPLES AND DEFINITIONS

### A. General Philosophy of the Federal Cost Principles

The U.S. Office of Management and Budget (OMB) developed 2 CFR, Part 200 Subpart E—Cost Principles to describe the treatment of costs (direct and indirect) on sponsored-project activities that can be charged to the federal government. These Cost Principles are federal regulations that apply to all federally funded projects including federal funding passed through to GVSU from other non-federal entities by way of subaward agreements. **Although these regulations are federal, they set the general standards for the budgeting, accounting, and financial management of all sponsored-project awards at GVSU, regardless of sponsor type.** See Consistent Treatment of Costs section below (A.4) for further guidance on how and under what circumstances allowable costs on these awards may differ.

#### A.1. Allowability of Costs

The GVSU Allowable Cost Policy (SLT: 3.11.1) documents the University’s stance on what constitutes an Allowable Cost on any externally sponsored project. The following sections are intended to provide further context and depth to the basic principles laid out in the Policy.

#### A.2. Reasonableness and Necessity of Costs

The basis for determining reasonableness is that any particular item of cost would withstand public scrutiny—i.e., objective individuals not affiliated with the institution would likely agree that the cost is a reasonable expenditure on a sponsored project. A reasonable cost is one where the nature and amount of the goods or services acquired reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision was made to incur the good or service.

Typical tests to determine if a cost is Reasonable:

- Whether the type of cost is generally recognized as ordinary and necessary for the operation and proper and efficient performance of the sponsored project.
- Whether the purchaser acted with prudence in a given circumstance relative to their responsibilities and role.
- Whether the actions taken by the purchaser were consistent with established University policies and practices applicable to the goals of the sponsored project.
- Whether the price paid is comparable with market prices for comparable goods or services for the geographic area.

Some examples of costs that may be deemed unnecessary or unreasonable include:

- Excess purchases of goods and services that will not be utilized by the end of the award period.
- Equipment purchased at the end of the award period.

- Costs of meetings and conference, including food if the primary purpose is NOT to disseminate technical information.

Questions to consider:

- Is it reasonable to purchase a lab computer 15 days before project expiration when the final work, report, or project objectives could be completed using existing or alternative resources?
- Could a reasonable justification be provided to warrant the necessity of a piece of equipment that is perceived to benefit the project for only 15 days?
- Will the lab supplies you want to order be used only on this project? Is it reasonable to assume the supplies will be exhausted by the end of my award period? Are you ordering the item to “spend down” an award and keep the supplies for other uses after the project is over?

Federal awards must be used for the purposes awarded within the award period and must not be used to purchase items not needed for the project or to “spend down” the award. Large purchases near the end of an award are “red flags” for auditors.

### **A.3. Allocability**

A cost is chargeable or assignable (i.e., it is “allocable”) to a particular sponsored project in accordance with the relative benefits received. Expenditures must be allocated to sponsored-project funds (i.e., FOAPs) in accordance with the relative benefit or use to be expected from the good or service.

In general terms, a cost is allocable to a sponsored project if:

1. It is incurred solely to advance the work of the sponsored project; and
2. It benefits the sponsored project in a proportion that can be approximated using reasonable methods.

#### Allocations of Direct Costs among Two or More Projects or Activities

At 2 CFR 200.405(d), the OMB defines two principles for allocating an allowable direct cost across two or more awards:

1. **Proportional-Benefit Principle:** 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.
2. **Interrelationship Principle:** 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 the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

**Contact your assigned grant accountant to assist in the development of proportional benefit calculations. The grant accountant will also prepare the necessary accounting entries.**

#### **A.4. Consistent Treatment of Costs**

At 2 CFR 200.400 (e), the Office of Management and Budget requires consistent treatment of costs to assure that the same types of costs are not charged to federal awards both as direct and as indirect costs. This ensures that the federal government is not charged twice for any single item of cost.

Consistent treatment means that costs incurred for the same purpose in like circumstances must be treated uniformly either as direct costs or as indirect costs. Thus, **if certain costs, such as office supplies and postage, are treated as indirect costs, the same types of costs cannot be directly charged to GVSU programs, unless the circumstances related to a particular program or activity are clearly different from the normal operations of the institution.** This situation is referred to as an “unlike circumstance”.

The consistency requirement applies to the University as a whole. Costs must be classified consistently across all GVSU departments and other organizational units. For example, if technicians' salaries are treated as direct costs on sponsored-projects, GVSU must also treat the salaries of staff performing comparable work on non-sponsored GVSU activities as direct costs of those activities and exclude those costs from its indirect cost pool for purposes of determining its indirect cost rate proposals to the federal government.

#### *Non-Federal Awards*

Proper stewardship of non-federal awards requires adherence to the following key principles which closely follow federal requirements while leaving room for application of less-stringent restrictions in certain cases:

1. **Allowable** under Grand Valley State policies and complies with the terms and conditions of the award
2. **Directly benefits the purpose of the award:** that is, the expense can be associated with, and is in support of, the project or program
3. **Reasonable:** the expense reflects what a “prudent person” would pay in a similar circumstance

Expenses on non-federal awards require the careful review of terms and conditions and any other supporting documentation (e.g., approved budget, sponsor guidance) in order to determine appropriateness of charges.

**Non-federal sponsors enforce their own policies regarding which costs they allow as direct costs and which they allow as indirect costs.** These policies vary widely. Non-federal sponsors also vary in their support of indirect costs in general—that is, they rarely allow their awardees to recover the full indirect cost rate awardees negotiate with the federal government. For these reasons, it is important to work closely with the OSP and Grants Accounting to determine whether you may be able to direct-charge a non-federal sponsor for items that the federal

government generally considers to be indirect costs (e.g., rent or space, administrative support staff).

## **B. Definition of Direct Costs**

In 2 CFR 200.413, the OMB defines direct costs as “...those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded 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 (F&A) costs.**”

A direct cost is one where a specific grant or contract gains explicit benefit from that cost for a specific programmatic purpose. Examples of common direct costs expenses include personnel costs (salaries, wages, and fringe benefits), materials and supplies, equipment, travel, and contractual costs.

## **C. Definition of Indirect Costs**

Indirect Costs (also referred to as Facilities & Administration [F&A] or overhead costs) are F&A-related expenses that cannot be identified specifically with a particular project or activity. Indirect costs benefit multiple activities and programming objectives. In order to capture the amount of indirect costs that should be allocated to a grant, the University has calculated an indirect cost rate that has been approved by the federal government.

The indirect costs included in this rate are made up of two broad categories: Facilities and Administration.

Facilities costs include:

- Custodial and Maintenance
- Utilities
- Grounds Services
- Parking Operations, less parking fines and fees
- Property and Liability Insurance
- Facility Planning and Management
- Engineering Planning and Management
- Depreciation

Administration costs include all the expenses incurred in providing the following university services:

- Central Administration
- Business & Finance, including financial audit
- Human Resources
- Legal Services
- Inclusion & Equity
- Library Operations

- Administrative Computer Operations
- Grants and Research Administration
- Department Administration, as defined by the federal government to be 20% of Dean and Dean's assistant compensation
- Mail Services
- Public Safety
- University Communications

#### **D. Grand Valley State University Definition of Unallowable Costs**

**Unallowable Costs** are costs that could be considered appropriate and reasonable, but which are not eligible for reimbursement by the federal government and therefore to ensure consistent treatment under the federal cost principles, are generally not allowable on any sponsored project. Exceptions are possible with a strong justification for unlike circumstances and with prior written approval from the Authorized Organizational Representative of the University and the sponsor.

Unallowable direct costs include:

1. Advertising and public relations-
2. Advisory councils
3. Alcoholic beverages
4. Alumni/ae activities
5. Bad debt expense
6. Collections of improper payments
7. Commencement and convocation costs
8. Contributions and donations
9. Entertainment costs
10. Fines, penalties, damages and other settlements
11. Fund raising and investment management costs
12. Lobbying
13. Intra-Institution of Higher Education (IHE) Consulting
14. Losses on other awards or contracts
15. Club, social, dining club or lobbying organization memberships
16. Proposal costs
17. Meals and travel associated with lobbying, fund raising, alumni activities
18. Student activities
19. Passports, immigration visas

#### **E. Cost-Sharing, In-Kind, Matching Expenses**

All cost sharing expenditures on federally funded projects must meet the same standards of allowability in adherence to the federal Cost Principles as those cost expenditures directly charged to a sponsored award. Costs determined to be unallowable as direct costs are equally unallowable as cost share.



## **II. EXAMPLE TREATMENT FOR CERTAIN TYPES OF COSTS**

The enforcement, interpretation, and methods for determining cost allowability and treatment of costs are based on results of audit interpretations, best practices among other Universities, and conformance with GVSU policies, procedures, and systems. Following are examples of specific types of costs that require special consideration and treatment.

### **A. Administrative and Clerical Staff Salaries**

As documented at 2 CFR 200.413(c):

The salaries of administrative and clerical staff should normally be treated as (F&A) indirect costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:

1. Administrative or clerical services are integral to a project or activity;
2. Individuals involved can be specifically identified with the project or activity;
3. Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
4. The costs are not also recovered as indirect costs.

#### **A.1. Interpretation and Implementation Procedures for Administrative Costs**

##### **1. Integral to the Project or Activity**

The scope of the project, type of effort, and degree of effort required for Administrative Costs must be considered when determining whether such costs are allowable as a direct cost on a specific sponsored project. Administrative costs may be allowable if they:

1. Are specifically associated with the work of the project, either as part of an unusually large or complex activity that requires separate administrative support, or as an administrative effort that is required to complete the specific and distinctive requirements of a particular sponsored project;
2. Represent extensive administrative work, significantly more than the routine level; and
3. Are a realistic reflection, through appropriate documentation, of planned or actual effort.

For example, if a person spends 50% time working with GVSU's financial accounting system to process expenditures on multiple sponsored-project accounts for a department, this represents a significant level of effort, but does not make a direct contribution to the programmatic success of the sponsored project. Therefore, the function being performed is an indirect function and considered to be an indirect cost.

##### **2. Specific Identification**

Individuals whose salaries and related fringe benefits are paid from a sponsored award must have responsibilities identified specifically with the work of the project (e.g., administrative work

specifically related to the distinctive scientific and technical requirements of the award). Supporting effort certification and payroll confirmation is required.

The salaries and related fringe benefits of individuals whose responsibilities do not meet these standards cannot be charged as a direct cost to any sponsored award.

General responsibilities that duplicate normal departmental administrative functions—such as travel arrangements, accounting, payroll, and purchasing—cannot be charged directly to a sponsored award. The cost of administrative work such as library searches, filing, and manuscript preparation are not considered allowable direct charges because such work is common across many activities, sponsored and non-sponsored. Such costs may support sponsored activity, but the OMB classifies them as indirect costs because they do not meet OMB’s “specific identification” standard.

### **3. Justification**

Specific effort percentage, salary rates, and fringe-benefit rates of administrative and clerical positions must be documented in the proposal budget and be clearly explained in the budget justification or budget narrative

#### **B. Meals/Food Costs**

In order to qualify as allowable costs on any federal sponsored project, all food-related costs (including meals, snacks, light refreshments, etc.) must satisfy the following criteria:

1. Fit into one of the five direct-cost categories listed below:
  - a. Participant Support
  - b. Travel
  - c. Conference
2. Be allowable under:
  - a. The OMB Uniform Guidance (UG) at 2 CFR 200 (specific references cited in the table below);
  - b. The terms and conditions of a specific sponsored award;
  - c. Published (documented) sponsor policy; and
  - d. Any related GVSU policy.

## SPECIFIC DETAILED CLARIFICATION TO AID IN DETERMINING APPROPRIATENESS OF MEAL EXPENSES TO A FEDERAL FUND

<p>As part of <b>PARTICIPANT SUPPORT</b></p> <p>Applicable UG Section: 200.75, 200.456</p>	<p>Food-related expenses associated with Participant Support costs <u>are allowable only</u> if the project includes an education or outreach component, <u>and</u> the food-related expenses are explicitly listed in the proposal budget and justified as part of the education or outreach components.</p> <p>Participant support costs are defined as direct costs for items such as stipends or subsistence allowances, travel allowances and registration fees paid to, or on behalf of, participants or trainees - but not UCI employees - in connection with conferences or training projects.</p>
<p>As part of <b>TRAVEL</b></p> <p>Applicable UG Section: 200.474, 200.475, 200.456</p> <p>GVSU Policy: <a href="#">SLT 6.18</a></p>	<p>Food-related expenses incurred by GVSU employees while on travel status are allowable if such expenses are reasonable and necessary for carrying out the scope of work or are specifically tied to the award's programmatic requirements.</p> <p>In its "Memorandum to ED Grantees Regarding the Use of Grant fund for Conferences and Meetings," The U.S. Department of Education Office of the Chief Financial Officer provides the following guidance:</p> <ul style="list-style-type: none"> <li>• Grant funds may be used to pay for the costs of attending a conference. Specifically, Federal grant funds may be used to pay for conference fees and travel expenses (transportation, per diem, and lodging) of grantee employees, consultants, or experts to attend a conference or meeting if those expenses are reasonable and necessary to achieve the purposes of the grant. <ul style="list-style-type: none"> <li>○ When planning to use grant funds for attending a meeting or conference, grantees should consider how many people should attend the meeting or conference on their behalf. The number of attendees should be reasonable and necessary to accomplish the goals and objectives of the grant.</li> </ul> </li> <li>• A grantee hosting a meeting or conference may not use grant funds to pay for food for conference attendees unless doing so is necessary to accomplish legitimate meeting or conference business. <ul style="list-style-type: none"> <li>○ A working lunch is an example of a cost for food that might be allowable under a Federal grant if attendance at the lunch is needed to ensure the full participation by conference attendees in essential discussions and speeches concerning the purpose of the conference and to achieve the goals and objectives of the project.</li> </ul> </li> </ul> <p><b>N.B.:</b> Food-related costs related to travel are also subject to <a href="#">GVSU Travel Policy and Procedures (SLT 6.18)</a>.</p>
<p>As part of <b>ENTERTAINMENT</b></p> <p>Applicable UG Section: 200.438</p>	<p>Food-related expenses associated with the cost of entertainment are unallowable except in the very rare instance where food-related costs that might otherwise be considered entertainment have a programmatic purpose <u>AND</u> are authorized either in the budget or approved by the federal sponsor.</p> <p>Entertainment expenses are costs related to amusement, diversion, and social activities and any costs directly associated with such costs, including tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities.</p>
<p>As part of <b>LOBBYING</b></p> <p>Applicable UG Section: 200.450</p>	<p>Food-related expenses associated with lobbying are unallowable except in the very rare instance when such expenses are related to travel for the purpose of technical and factual presentations on topics directly related to the performance of a grant, contract, or other agreement in response to a documented request made by a member of congress, legislative body or a subdivision, or a cognizant staff member.</p> <p>Lobbying includes certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans or attempting to influence either directly or indirectly an employee or officer of the executive branch of the Federal Government to give consideration or to act regarding a Federal award or a regulatory matter.</p>
<p>As part of <b>CONFERENCE / MEETING</b></p> <p>Applicable UG Section: 200.432</p>	<p>Food-related expenses associated with a conference <u>are allowable when:</u></p> <ul style="list-style-type: none"> <li>• The event at which the food expenses are incurred meets the below definition of "conference", <u>and</u></li> <li>• The expenses are paid by GVSU as the sponsor or host of the event; <u>and</u></li> <li>• In the case of NIH awards the meals must be an integral and necessary part of the meeting/conference (i.e., business is transacted during the meal).</li> </ul>

<p>NIH --GRANTS POLICY STATEMENT, dated 3/31/15 Sections: 7.9.1 and 14.10.1</p> <p>NSF – Proposal &amp; Award Policies and Procedures Guide (16-1), Chapter II, Section C.2.g.(xii).(b) – Meals and Coffee Breaks; &amp; Chapter II, Section D.9</p>	<p>Food-related expenses associated with a conference are <b>unallowable</b> when:</p> <ul style="list-style-type: none"> <li>• The award is from NIH <u>and</u> the primary purpose of the grant was to support a conference or meeting or the food is for recurring business meetings, such as staff meetings, which are being broadly considered as meetings for the primary purpose of disseminating technical information in order to justify charging meals or refreshment to costs to grants; OR</li> <li>• The award is from NSF.</li> </ul> <p>At 2 CFR 200.432, the OMB defines “conference” as a meeting, retreat, seminar, symposium, workshop or event whose primary purpose is the dissemination of technical information beyond the non-Federal entity [GVSU] and necessary and reasonable for successful performance under the Federal award.</p> <p><i>NOTE:</i> Conference hosts/sponsors must exercise discretion and judgment in ensuring that conference costs are appropriate, necessary, and managed in a manner that minimizes costs to the Federal award.</p>
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### C. Costs Normally Treated As Direct Costs

As noted above (Section I.B.), the federal government limits direct charges to a federally sponsored award to those that directly support the purpose and activity of the award. Standard direct cost categories include Personnel Costs (salaries and fringe benefits), Equipment, Travel Costs, Participant Costs, Materials and Supplies, Contractual Costs (including subawards, service contracts, and consultants).

The following are a few salient examples of select items of cost that may not be obvious candidates to charge as direct costs, but which are acceptable direct costs if properly justified as allocable to a particular sponsored project:

#### Communication/Shipping/Phone Costs:

Long distance phone charges, shipping and handling costs (not ordinary postage and assuming directly related to the project). Dedicated cell phones/telephone lines to conduct surveys or clinical subject contact lines are allowable as these are unlike circumstances to routine business purposes.

*Rationale:* These costs can be directly assigned to a particular project relatively easily and with a high degree of accuracy. Office telephones are usually used for multiple purposes (instruction, administration and research), and cannot be assigned to a specific activity or project easily.

#### Printing/Dissemination Costs:

Necessary dissemination costs such as printing, photocopying, duplication, research publication costs, materials required for poster or publication preparation (poster board, photographic supplies, color paper, etc.) and page charges are allowable as direct costs.

#### Supply Costs:

Laboratory supplies (e.g., chemicals), lab notebooks, laptops and tablets (under the \$5,000/unit equipment-cost threshold), data-storage supplies (e.g., USB or hard drives), research-related animal-care costs, and certain computer costs (specialized storage and high-capacity processing).

Documentation:

Appropriate documentation must be maintained by the PI/PD's department to ensure the cost is identifiable with activity in the sponsored project. The University maintains invoices, journal entries and other supporting documents of record in its On-Base record management system.

**D. Costs Normally Treated As Indirect Costs**

From Appendix III to 2 CFR 200 B.6.b (2): "Items such as office supplies, postage, local telephone costs, and memberships must normally be treated as indirect (F&A) costs."

Office Supplies:

General office supplies (paper, pencils, pens, accent markers, all-purpose notebooks, binders, file folders, etc.) are not normally considered an allowable direct cost on a sponsored-project award. Office supplies drawn from common stock are unallowable as a direct cost unless sufficient written documentation is kept regarding their direct applicability to the sponsored project. When possible and practicable, a justification should be made in the proposal budget narrative to explain how such supplies can be sequestered and inventoried separately to ensure they are not used for non-project purposes.

However, exceptions may be warranted by the nature and/or demand of the sponsored project that could make such charges allowable when appropriate justification is provided.

Proposal budgets must include a detailed explanation of, and justification for, any purchase of administrative or office supplies.

Postage:

Postage is ordinarily an indirect cost of sponsored activities. However, if a particular program has a special need for an extraordinary amount of postage (e.g., mailing of hundreds of survey questionnaires) then it would be appropriate to charge that program directly for postage. Justification for such special circumstances must be made in the proposal budget narrative.

Local Telephone Costs and Monthly Rental:

Local telephone and monthly rental charges are not allowable direct costs unless specifically requested and justified in the proposal and approved by the sponsor. An example of allowable monthly rental costs would be those for projects funded for telephone surveys as a major component of the research or sponsored activity.

Memberships:

Memberships are not normally allowable direct costs unless the sponsor requires the membership for the performance of the project AND the sponsor specifically approves the cost in the award budget. Membership costs are generally categorized as indirect costs because they are not easily identifiable to a specific project and because certain products associated with memberships (e.g., reference materials), may benefit the University, department, colleagues, and multiple projects in such a way that they cannot be allocated with a high degree of accuracy.

#### Photocopies:

Photocopying costs cannot generally be charged directly to a sponsored award. Exceptions are allowed in cases where such costs are directly related to a programmatic activity and can be isolated and quantified for accurate allocability to approved award activities (e.g., the printing of surveys and questionnaires).

### **III. BUDGET PREPARATION AND POST AWARD REBUDGETING**

#### **A. Budget Development**

When proposing as direct costs any costs that are normally considered indirect costs, the PI/PD must ensure that such costs are explicitly identified and justified in the proposed budget. The same rule applies when proposing any cost that is generally considered unallowable but for which a case is to be made for unlike circumstances justifying the cost as allowable (e.g., alcohol supplies to be used in a research study on the effects of alcohol on cognition).

For purposes of efficiency, this approach is considered to be, *de facto*, a prior approval request. The prior approval is considered granted if the costs are included in the awarded, sponsor-approved budget. This documentation is the prime consideration for allowability regarding “questionable items.” In short, the preferred test for allowability at the pre-award stage is the sponsor approval that activates the post-award stage. As a process matter, proposal-budget development between the GVSU PI/PD, proposal development team, and the OSP, is the starting point and “compliance check” for identifying “questionable” items normally considered indirect costs as direct costs (and for potentially unallowable costs in general). These items must be justified in the budget and budget justification. See section III.C below for the full definition of Prior Written Approval.

Following are examples of questions to consider when you are thinking of including certain types of indirect costs as direct costs in a sponsored-project proposal budget:

- Administrative/Clerical Salaries:
  - Given that all projects require a certain level of account reconciliation, correspondence, communications, and office expenses, how do the costs proposed for this specific sponsored project differ from the standard level of department assistance provided to all projects?
  - The job title may imply that the effort is dedicated to administrative purposes. Is the nature of the work different from the general administrative work conducted

for all sponsored projects? Are the charges necessary to meet the technical or programmatic needs of the project?

- Supplies: The terms “office supplies” and “other” are vague and may imply that the items are being used for administrative purposes. How will the items be used to meet the technical needs of the project? Explain their relevance to technical aspects of the project above the normal expectation of these costs being provided by the department.

## **B. Post Award Rebudgeting and Cost Transfers**

### **B.1. Rebudgeting:**

While rebudgeting is sometimes unavoidable, it must never be used to circumvent the integrity of the budgeting process. Sponsored-project budgets submitted to sponsors should reflect as accurately as possible the projected costs of the proposed project. That said, despite the best-laid plans, the unexpected may happen and often does. For example, the results of a funded experiment may obviate a new one and render irrelevant another that was planned and approved. Or a planned community partner agency may suddenly have to withdraw from your project, requiring a scramble to recruit a replacement. In such cases, rebudgeting may be warranted.

In general, rebudgeting of costs on a sponsored project may be necessary when:

1. An unexpected need emerges for new costs to accommodate the performance of the project; or
2. There is a change in the project’s awarded scope of work.

It is crucial to note that the OMB requires prior approval for any change in the scope or objective of a federally sponsored project ((§200.308 (c)(1)), whether or not such changes necessitate rebudgeting.

The OMB does NOT require prior approval for rebudgeting among direct-cost categories on non-construction projects as long as the cumulative amount of the cost transfer is 10% or less of the approved budget (§200.308 (e)).

In certain cases, a specific sponsor may have more or less restrictive policies toward rebudgeting, so it is incumbent upon PI/PDs to contact the Office of Sponsored Programs when contemplating any change to awarded sponsored-project budgets. In such cases, the PI/PD, the OSP, and the cognizant grant accountant will confer, consult the award terms and conditions, the sponsor’s policies, and the OMB guidance on rebudgeting, and exercise judgment as to whether rebudgeting is allowable without prior approval.

### **B.2. Cost Transfers**

The University’s accounting system is designed to record costs to the proper sponsored-award fund at the time of incurrence. However, in the event a transfer of a cost is required, the transfer must be requested as soon as the need for correction is identified. Justification must be provided

to the cognizant Grants Accountant, who will prepare the cost transfer. When a cost has been incurred more than 90 days prior, the **Cost Transfer Request Process (Appendix A)** applies.

### **C. Definition of Prior Approval**

Prior Written Approval is a formal permission the University must document before it proposes or incurs a special or unusual cost that may be deemed unallowable under the federal cost principles under normal circumstances.

Requests for prior written approval must be rationalized in writing as allowable under an “unlike circumstances” justification by the University personnel who wish to propose the special or unusual costs. The requests are then reviewed, approved, and (assuming approval is granted) formally submitted to the sponsoring agency by the Authorized Organizational Representative of the University (as defined in [SLT 3.11: EXTERNALLY SPONSORED PROJECTS POLICY](#)).

In accordance with the Uniform Guidance at 2 CFR 200, prior written approval from the sponsor is explicitly required (either in the awarded proposal budget, during award negotiation, or prior to incurrence of costs in the event that the expense is to be proposed post-award) for a number of items, including the following:

1. Administrative expenses (§200.413(c))
2. Change of scope (§200.308 (c)(1))
3. Cost sharing or matching (§200.308 (c)(7))
4. Entertainment costs (§200.438)
5. Equipment and other capital expenditures (§200.313, 439)
6. Exchange rates (§200.440)
7. Fines, penalties, damages and other settlements (§200.441)
8. Fixed amount subawards (§200.332)
9. Fund raising and investment management expenses (§200.442)
10. Memberships in any civic or community organization (§200.457 (c))
11. Organization costs (§200.455)
12. Participant support costs, any transfer of budget (§200.308 (c)(5))and (§200.456)
13. Rearrangement and reconversion expenses (Renovations) (§200.462)
14. Selling and marketing costs (§200.467)
15. Subawards, any changes or transfers (§200.308) (c)(6))
16. Supplemental compensation for incidental activities (§200.430 (h) (ii))
17. Use of program income (§200.307)

### **D. Unacceptable Practices**

The following are unacceptable practices and justifications for charging expenditures to federally funded sponsored projects:

1. Charging costs to spend remaining balances.
2. Applying an internal fee or “tax” to projects to distribute clerical and administrative expenses within the department.



3. Charging more than the actual cost of an item or service.
4. “Rainy-day purchases” conferring inappropriate benefit to other projects after the project end date. The cost must only benefit the awarded project during that project’s period of performance.
5. Sponsored-project expenditures may not be shifted to other sponsored projects in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored award, or for other reasons of convenience.
6. Any costs allocable to activities sponsored by industry, foreign or state governments, or costs applicable to the University, may not be shifted to federally sponsored projects.

## **IV. PROCESSES, ROLES, AND RESPONSIBILITIES**

### **A. Pre-Award General Process**

Prior to submission of any sponsored-project proposals, PI/PDs work closely with the OSP to develop proposal budgets that are compliant with the GVSU Allowable Cost Policy. The OSP facilitates the proposal-routing process to document approval of proposed expenditures from responsible administrative and management personnel. The OSP documents these approvals electronically in Streamlyne, the University’s electronic research administration system of record.

Prior to the acceptance of any sponsored agreement, proposed budgets are reconciled with awarded budgets as a final pre-award check to ensure all costs are allowable.

### **B. Post-Award General Process**

Once a sponsored-project award is accepted and an appropriate account is established, the Grants Accounting Office provides guidance to PI/PDs for the post-award financial management and accounting of the awards. Thereafter, on a monthly basis, responsible PI/PDs review charges on their sponsored-project accounts to confirm the appropriateness of all expenses and to ensure incurred expenses are approved in the University’s accounting system of record, BANNER. Finally, the OSP and GA support PI/PDs through the remainder of the award lifecycle, providing guidance and services to ensure prior-approvals, no-cost-extensions, technical and financial reporting, and close-out responsibilities are completed timely and in compliance with the Allowable Cost Policy and other relevant sponsor requirements, federal regulations, and University policies.

For more detail regarding procedures and responsibilities related to the oversight of Allowable Cost at GVSU, please see the Process Roles and Responsibilities section below, the [Sponsored Programs Matrix of Responsibilities Matrix](#), and the [General Responsibilities of Principal Investigators/Project Directors Policy \(SLT 3.11.5\)](#).

## **C. Specific Process Roles and Responsibilities**

### **C.1. Principal Investigator (PI) or Project Director (PD):**

- Initiates, processes, and approves award expenditures;
- Contacts the Office of Sponsored Programs when clarification is needed regarding cost allowability;
- Reviews and approves reconciled financial reports provided by the cognizant Grant Accountant; and
- Formulates, justifies, and submits to the Office of Sponsored Programs all prior-approval requests to incur otherwise unallowable costs with sound justification of unlike circumstances.

### **C.2. Department Administration (Deans, Division Heads, Center Directors, Authorizing Officials, Unit Heads):**

- Reviews and approves all proposed costs prior to proposal submission; and
- Contacts the Office of Sponsored Programs when clarification is needed regarding cost allowability.

### **C.3. Department Administrative Support Staff:**

Assist the PI or PD with:

- Initiation, review, processing, and approval of expenditures; and
- Monthly review of transactional activity as detailed in specialized University accounting system general ledger reports.

### **C.4. Office of Sponsored Programs and Authorized Organizational Representative:**

- Maintains the University policy and any guidance documents or procedures pursuant to the Allowable Cost Policy;
- Provides training and guidance regarding requirements;
- Oversees University-wide compliance with the University policy and any procedures pursuant to the Allowable Cost Policy;
- Reviews and approves all proposed costs prior to proposal submission; and
- Reviews, submits, and documents all prior-approval requests to incur otherwise unallowable costs with sound justification of unlike circumstances.

### **C.5. Grants Accounting:**

- Prior to submission, reviews and approves large proposal budgets that exceed a threshold that shall be determined and reviewed from time to time by the Controller and the Authorized Organizational Representative of the University;
- Meets with the PI or PD at the start of the award period to review award terms and conditions and discuss allowable and unallowable costs specific to the award;

- Monitors actual expenditures to the award budget and contacts the PI or PD regarding financial transactions as appropriate;
- Reviews and reconciles award activity to prepare payment draws and financial reports to sponsors; and
- Contacts the Office of Sponsored Programs when clarification is needed regarding cost allowability.

**APPENDIX A: COST-TRANSFER PROCEDURE AND FORM**



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Section: Grant Accounting

Subject: Cost Transfers

Reference: 2 CFR 200.405 Allocable Costs

Date: January 1, 2016

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The university follows the following procedures regarding cost transfer requests:

1. For federal grants, the transfer must be in compliance with the Uniform Guidance as follows:

**2 CFR200 Paragraph 405 Allocable Costs item C.** *“Any costs allocable to a particular federal award under the principles provided for in this part may not be charged to other financial awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal Awards.”*

2. Cost transfers should occur in a timely manner to maintain effective internal controls. The university defines timely manner (for purposes of cost transfers) as taking place within 90 days of the occurrence of the cost. This control applies to all sponsored agreements.
3. Transfers of costs requested after 90 days from the original occurrence must be justifiable and explicitly identifiable to the award. The cost must also be reasonable, allocable, and allowable. A Cost Transfer Request Form is required to process these type of transfers and includes:
  1. The reason for the delay;
  2. The reason that the cost was not initially charged to the grant;
  3. The relation of the cost to the initial placement, and
  4. The measures that have been implemented to ensure that a similar transfer will not be needed in the future.

# Grand Valley State University Cost Transfer Request

Requested By:

Department:  Date:  Amount:

FOP Charges from:  FOP Charges To:

Grant Title:  Sponsor:

Project Beginning Date:  Project Ending Date:

Transfers requested 90 days after the original occurrence require that all of the following questions be answered. **Documentation to support this request must be attached.**

1. What is the charge for and how does it benefit the project which is now being charged?

2. Why was the cost charged incorrectly initially?

3. If the transfer is between two sponsored projects, explain how the two projects are related.

4. Why is this cost transfer being requested more than 90 days after the occurrence of the original transaction?

5. What measures have been taken to avoid the need for this type of cost transfer in the future?

Principal Investigator's Name: \_\_\_\_\_ Phone Number: \_\_\_\_\_

Principal Investigator's Signature: \_\_\_\_\_ Date: \_\_\_\_\_

The Accounting Office will review this request for approval. If approval is not granted, the transfer will not be allowed.

**ACCOUNTING OFFICE USE ONLY**

Accounting Office Approval: \_\_\_\_\_ Date: \_\_\_\_\_

## Cost Transfer Request Form Instructions

The Cost Transfer request form is used to request an after-the fact reallocation of a cost (from one FOAP to another) which is being transferred over 90 days after the original transaction date.

### Section I:

- **General information:** Name, department, and date.
- **Charges from:** FOAP where the original transaction was charged.
- **Charges to:** FOAP to be charged.
- **Amount:** The dollar amount of the transaction.
- **Grant Beginning Date:** The beginning date of the project.
- **Project End Date:** The date the project ends.

### Section II:

- **Questions** Should provide adequate reasons for the request.
  
- **Supporting Documentation** Attach a copy of the documentation submitted with the initial payment request.

### Section III:

**Signature approvals** are the signatures required to process the request.  
The journal entry to reallocate the cost should not be completed until the request is approved.