Policy 4362: Cost Principles for U.S. Federal Sponsored Projects

Summary

Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200, Uniform Guidance) establishes the principles and standards for determining costs on federal awards. OMB's Cost Principles for Non-Profit Organizations (2 CFR 230) further establishes the principles for determining costs of grants, contracts, and other agreements with non-profit organizations, like MTS.

MTS accepts the responsibility for all sponsored funds and the proper management of sponsored project expenditures as essential to meet the cost principle obligations of federal and non-federal sponsors.

The following cost principles and procedures have been adopted by MTS to comply with the requirements of 2 CFR 200 and 2 CFR 230 for any funding originating from the U.S. Federal Government. For any discrepancies between this document and 2 CFR 200 and 2 CFR 230, the terms of 2 CFR 200 and 2 CFR 230 will prevail.

Key Terms

Allowable: Costs allowable under the terms and conditions of the award, including the authorized budget and applicable regulations.

Allocable: Costs that benefit the award charged. Costs shared by more than one project should be allocated in proportions that can be approximated through actual use.

Reasonable: A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.

Consistent: Application of the cost is given consistent treatment within established MTS policies and procedures; costs for the same purpose are treated and classified the same way under like circumstances.

Consultant: An individual who provides specific professional advice and expertise to a research project on a limited basis, normally for a fee.

Contractor: a person or an entity that enters into a formal agreement to conduct significant portions of the work described in the research plan. Entities working under a contract (as opposed to a purchase order) are provided a certain degree of autonomy in their work. A contractual agreement typically requires the contractor to provide MTS with a detailed budget, which is incorporated in a proposal application.

Cost Transfer: An after-the-fact reallocation of costs, either salary or non-salary, to a sponsored project within a 90-calendar day period from the original accounting date.

Federal Demonstration Partnership (FDP): The FDP is a cooperative initiative among federal agencies and institutional recipients of federal funds, established to streamline the administrative process and maintain effective stewardship of federal funds. FDP has designed templates in widespread use by the federal research community for Subaward documents.

Federal Program: All federal awards to a non-federal entity assigned a single number in the Catalog of Federal Domestic Assistance (CFDA). When no CFDA number is assigned, all federal awards from the same agency made for the same purpose should be combined and considered one program.

Late Cost Transfer: An after-the-fact reallocation of costs, either salary or non-salary, to a sponsored project more than 90 calendar days from the original accounting date.

Original Charge: The first posting of a cost to the general ledger.

Pass-Through Entity: An entity that provides an award to a Subrecipient to carry out a program.

Primary Institution: An entity that receives funds from a sponsor to carry out a program.

Principal Investigator (PI): The individual judged by the applicant organization to have the appropriate level of authority and responsibility to direct the project or program supported by an award.

Subaward: An award of financial assistance in the form of money, or property in lieu of money, made under an award by a recipient to an eligible Subrecipient or by a Subrecipient to a lower tier Subrecipient. The term includes financial assistance when provided by any legal agreement, even if the agreement is called a contract, but does not include procurement of goods and services.

Subrecipient: An entity that expends awards received from a Pass-Through Entity to carry out a program but does not include an individual that is a beneficiary of such a program. A Subrecipient may also be a recipient of other awards directly from a sponsor.

Subrecipient's Statement of Work: A definition of the services to be delivered and/or the outcomes to be achieved by the Subrecipient.

Vendor: A dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a project. A vendor contract for acquisition of goods and services does not qualify as a Subaward.

Project Expense Ledger

MTS recognizes that cost transfers are sometimes necessary to correct bookkeeping or clerical errors and to allocate closely related work that may support more than one project. Frequent, late, and inadequately explained transfers, especially those involving projects with cost overruns or unexpended balances, raise serious questions about the propriety of the transfers and call internal fiduciary controls into question. These activities may result in audit disallowances and monetary payback including penalties and fines.

Auditors and sponsors will flag as suspicious cost transfers with the following characteristics:

- Costs transferred long after the original charges were recorded
- Transfers supported by inadequate documentation or justification
- Transfers made at the end of a project that relieve cost overruns or spend out a project

Original charges should be directed to the appropriate benefiting sponsored project. Project staff will submit charges to the MTS accounting staff. If it is necessary to process a cost transfer that involves a sponsored project, a journal voucher should be initiated promptly (within 90 days of the original transaction date) and contain sufficient documentation and justification to support the cost transfer that would stand the test of a formal audit.

Under no circumstances may costs that benefit one sponsored project be charged temporarily on another sponsored project. Failure to adhere to this procedure will result in improper financial reporting and inappropriate reimbursement from the sponsor.

Cost Transfers within 90 Days

The 90-day threshold is calculated from the last day of the month in which the charge first posted in the general ledger. For example: A charge first posted in the general ledger on May 2nd would begin its 90-day period on May 31 and end its 90-day period on August 31.

A journal voucher should be submitted, and the journal voucher explanation should include the following:

- Transaction date, description, account, reference number and dollar amount of the original transaction
- Location and event for any travel expense
- A detailed explanation of the reason for the transfer ("to correct error" or "to transfer to correct project" are not considered sufficient reasons for transfers)
- The reason for the division of the cost if only a portion of the original cost is being transferred

The journal voucher should be approved by an account code administrator other than the originator and the MTS Chief Executive Officer must be copied. Sufficient documentation related to the transfer will be kept on file within the department until notified that the record retention requirement has been satisfied.

Cost Transfers after 90 Days

In addition to the procedures for cost transfers within 90 days, originators are required to answer a series of questions when processing a cost transfer for an expense that is over 90 days:

- What is the oldest original date of the expense(s) being transferred?
- Why was this original expenditure not charged appropriately?
- Why should this charge be transferred to the proposed receiving project?
- Why is this cost transfer being requested > 90 days after the original transaction date?
- What steps will be taken to prevent this type of error from happening in the future?

The journal voucher will require approval from an account code administrator other than the originator and will be routed to the Chief Executive Officer for final approval. The sponsored project Principal Investigator must be copied.

Examples of circumstances where cost transfers are typically allowable:

- transfer of pre-award costs
- correction of a clerical error often involving transposed or mis-typed characters
- reallocate effort to reflect actuals
- reallocate costs when originally charged to a central administrative purpose

Examples of typical circumstances in which cost transfers may not be allowed:

- Reallocation of expenses because the grant has unexpended funds
- Transfer of after end date expenses to another project
- Transfers which do not explain why the error occurred and how the expense is appropriate to the project to which it is being moved
- Transfer of an expense that was previously transferred
- Charged to another grant to expedite purchase

Roles and Responsibilities

It is the role of each project Principal Investigator, project staff and accounting staff with delegated approval authority to:

- Review sponsored research projects on a regular basis (e.g., monthly) to ensure that all expenditures charged are correct and appropriate
- Submit and approve cost transfer journals in compliance with MTS policy and procedures
- Retain copies of all related documentation in accordance with applicable record retention regulations
- Ensure that all personnel engaged in financial administration of federally funded awards are familiar with the cost transfer procedure

It is the role of the Chief Executive Officer to:

- Develop and implement cost transfer procedures in accordance with the regulations set forth in the OMB Circular
- Aid in interpretation and implementation of the policy
- Provide training on policy as needed
- Serve as final approver on cost transfers greater than 90 days old
- Periodically review cost transfers to ensure compliance with MTS and federal regulations

Documentation of Personnel Expenses

Compensation for personnel includes all remuneration, paid currently, or accrued, for services of employees rendered during the period of performance under the sponsored project, including but not necessarily limited to wages and salaries. Compensation for personnel may also include fringe benefits.

Costs of compensation are allowable to the extent that they satisfy the specific requirements, and that the total compensation for individual employees:

(1) Is reasonable for the services rendered and conforms to the established written policy of MTS consistently applied to both federal and non-federal activities,
(2) Follows an appointment made in accordance with MTS' rules or written policies and meets the requirements of federal statute, where applicable, and
(3) Is determined and supported as provided in Standards for Documentation of Personnel Expenses, when applicable.

Charges to sponsored projects for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(1) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
(2) Be incorporated into the official MTS records.
(3) Reasonably reflect the total activity for which the employee is compensated by MTS, not exceeding 100% of compensated activities.
(4) Encompass both federally assisted, and all other activities compensated by MTS on an integrated basis.
(5) Comply with the established accounting policies and practices of MTS.
(6) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one federal award; a federal award and non-federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Standards for Documentation of Personnel Expenses

It is the policy of MTS to comply with all applicable federal and non-federal sponsor guidelines. The distribution of salaries and wages of staff applicable to sponsored agreements shall be based on budgeted, planned, or assigned work activity and updated to reflect any significant changes in work distribution.

All Principal Investigators (PIs) in receipt of external funding agree to adhere to the MTS procedures below.

- The PI is responsible and accountable for compliance with all federal and/or sponsor regulations associated with sponsored projects awarded under his or her supervision with oversight provided by the MTS HQ and accounting staff. Salary distribution and personnel expense documentation is a required element of acceptance of a federal award.
- All MTS employees directly paid from federal contracts and grants or directly paid from federal pass-through contracts and grants must complete a Salary Distribution Form each time there is a change to the distribution of wages and salaries charged to federally funded projects. This form must be filled out and approved before the change in effort and salary distribution begins.
- The individual signing an annual Personnel Expense Documentation Report certifies that the percentage distribution of activity on the report is a reasonable estimate of the work performed by the listed employee for the documented period.
- MTS requires the employee and the PI for the project being charged to certify each report
- Any request for retroactive adjustment requires a justification that clearly sets forth why the previous report was erroneously certified, and why the requested change is more appropriate within the context of law or federal requirement. Retroactive adjustments must occur within 90 days of recording the expenditure for which reclassification is requested.
- MTS HQ has set a deadline of 30 days (from receipt) for the return of certification reports. Any delay in returning these reports could result in MTS being found at fault for non-compliance of federal regulations.
- Sometimes there are legitimate reasons to modify the reports on a project after certification. These modifications are referred to as retroactive adjustments. Legitimate reasons do not include manipulating funds for budget purposes or charging one grant or contract to cover work activity expended for another project or work-related duty. MTS HQ will assist the PI in deciding whether any adjustments they may have are justifiable or not.

Documentation for Personnel Expense will be distributed on an annual basis.

1. Reports are distributed by the Senior Director of Operations. The report will detail accounting for which each employee has been paid on a sponsored project.
2. The report must be certified by the employee and the PI.
3. The signed and completed report must be returned to the Senior Director of Operations within 30 days of receipt.

Allowable Costs

MTS Guidelines for Direct Costs Allowable Expenses

The following table is a general outline of how MTS considers sponsored project expenses in accordance with federal law.

Direct vs. Indirect Costs

Direct Costs	Indirect Costs
Those costs that **can be identified specifically** with a particular sponsored project	Those costs that are **incurred for common or joint objectives** and therefore cannot be identified specifically with a particular sponsored project
Examples:	**Examples:**
1. Salaries	**1. Salaries**
- PI and project personnel	- Clerical & Administrative Personnel
2. Supplies	**2. Supplies**
- project specific consumables	- General purpose supplies (e.g., office supplies)
	- Subscriptions
	- Institutional & Individual memberships
3. Equipment	**3. Equipment**
- Technical or scientific equipment essential for project execution	- General purpose equipment (computer, furniture)
	4. Telephone and Internet Charges
	- Basic monthly service; Installation; Maintenance

Indirect Costs

An indirect cost is any cost that cannot be allocated to a specific project, including costs that are associated with operating MTS, such as administrative salaries, rent, office supplies, and utilities. MTS does not have a Negotiated Indirect Cost Rate (NICR) with the U.S. Federal Government. Rather, it is MTS policy to request reimbursement of indirect costs from sponsors at a rate of 10% of Modified Total Direct Costs (MTDC). MTDC includes all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each subcontract (2 CFR 200.68). MTDC specifically excludes equipment, participant support costs, tuition remission, and scholarships/fellowships.

Direct Costs

Direct costs are those which can be identified specifically with a particular sponsored project, and which can be directly assigned to such activities, relatively easily and with a high degree of accuracy. For example, the supplies needed for a research project are easy to identify, as are the salaries of the individuals who will work on the project and travel expenses for those individuals.

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A cost element is chargeable as a direct cost if it meets all the following criteria:

- The cost is necessary, reasonable, and allocable to the grant program.
- The cost complies with the limitations of the grant agreement.
- The cost is allocated to the grant consistent with policies that apply to all activities of the grantee.
- The cost is accounted for consistently and in accordance with the generally accepted accounting principles.
- The full cost has not been allocated to or included in the cost of any other externally funded program.

A cost element is not chargeable as a direct cost to a sponsored program if it is incurred:

- To meet deficiencies caused by over expenditures
- To relieve a project of unexpected balances
- To avoid restrictions imposed by the law or by the term of the project agreement
- For other reasons of convenience
- If work was not done

Direct costs generally include the following major categories.

Salaries/Wages

Salaries and wages proposed in a budget should accurately reflect the current compensation level of employees. The grant application may request the share of an individual's salary in proportion to the effort devoted to the research project. The base annual salary of any individual, distinct from bonus and/or incentive pay, will be used for computing proportional salary support.

Federally sponsored projects do not routinely allow salary for administrative personnel. Always review the individual sponsor's guidelines for allowable administrative salary costs. For non-federally funded projects, the salaries of general administrative staff and other personnel may be charged to a project, subject to sponsor approval.

Stipends are not considered salary for sponsored project purposes.

Fringe Benefits

A fringe benefit is an additional benefit offered to an employee above their base salary. MTS fringe benefits available to all full-time employees include leave (vacation, sick, family-related), group insurance (health, dental, life, disability), worker's compensation insurance, unemployment benefits, and retirement contributions.

Consultant Services

A consultant is an individual who provides specific professional advice and expertise to a project on a limited basis, normally for a fee. MTS does not set fee rate limits; however, consultant fess must be reasonable.

Consultant charges for travel, lodging, per diem and professional fees may be included in the budget but should be justified carefully. The budget explanation should include the period of the consultant's service, while the narrative should include an explanation of the specific expertise. Some consultants may provide their services without charge, but they should still be identified in the budget.

A Consultant is not the same as a Contractor. A Contractor is a person or an entity that enters into a formal agreement to conduct a significant amount of the work described in the research plan.

Equipment

According to 2 CFR 200.33, "Equipment" is defined as:

- An article of nonexpendable, tangible personal property,
- Having a useful life of more than one year, and
- An acquisition cost which equals or exceeds the lesser of the capitalization level established by the organization for financial statement purposes, or $5000.

The equipment threshold amount for MTS is $5,000. Equipment costing less than $5,000 is considered a supply expense.

The specific acquisition cost of any piece of required permanent equipment must be listed in the budget, and justification of need must be detailed in the budget justification. If freight and installation charges are to be billed on the same invoice as the piece of equipment, these charges should be included in the acquisition cost. Maintenance costs should be expensed when incurred as a direct expense.

Supplies

Supplies are any tangible personal property not considered equipment. These include items that are expendable, have a useful life of less than one year, or that have an acquisition cost less than $5,000 (regardless of length of its useful life).

Travel

All travel expenses (transportation, lodging, meals, and incidentals) must benefit the sponsored project. Travel expenses will be specific and detailed in any budget submitted for review as part of a proposal package. In the budget justification section, the investigator will include the purpose, destination, and time frame for domestic travel.

It is the policy of MTS to reimburse individuals for legitimate business expenses incurred while traveling on approved company business. Meals and incidental expenses for approved business travel will be reimbursed at actual costs up to maximum rates that do not exceed those provided for in any project contract. All travel costs must be reasonable and necessary to be considered for reimbursement.

Original receipts for travel costs and incidentals more than $50 must be submitted with the expense reimbursement request form, the individual should retain copies for their own records.

Business mileage will be reimbursed for use of a personal vehicle(s) for legitimate business travel and in accordance with IRS guidelines and at rates that do not exceed the maximum rate per mile established by the IRS.

Foreign travel requests must specify the destination, purpose, and align with U.S. Department of State foreign per diem rates. Any MTS travel supported with US federal awards must comply with the Fly America Act, a U.S. federal regulation that requires the use of U.S. carriers for travel that will be reimbursed from federal grants and contracts. Travelers who will be reimbursed from federal grants and contracts can also use foreign air carriers in code-sharing agreements with U.S. flag carriers. If there is no U.S. carrier to your destination, you must travel on a U.S. carrier as far as possible. Additional cost for U.S. carrier flights is not sufficient justification to fly on foreign carriers. Please note that the same rules apply to a non-US visitor's flights supported by federal funds.

Other Expenses
This category includes miscellaneous items such as:

Human Subjects, Focus Group and Training Group Participants
Includes payments to individuals participating in educational and research programs. Human Subject costs are subject to sponsor guidelines.

Participant Support Costs (unique to NSF grants only)

- Stipends
- Travel
- Subsistence (living expenses)
- Other misc. expenses

Honoraria
An honorarium is a type of independent contractor payment that includes payments made to speakers and presenters. These are payments to an individual in exchange for services such as consulting, entertaining, or catering. Independent contractor payments may not be made to MTS employees. All individuals and organizations receiving honoraria from MTS must complete an IRS Form W-9. MTS must determine if an individual providing services is an independent contractor (payment to be reported on Form 1099) or an employee (payment to be reported on Form W-2).

Purchase Orders (PO)
POs typically cover goods and services provided by a Vendor that are specifically defined by the PI, with the final product not subject to interpretation by the vendor. These services are routinely performed for a standard fee.

Publication Costs
It is allowable to budget the anticipated costs of publishing the results of research, including the costs of reprints, page charges and illustration costs if needed. Costs of typing, editing, graphs, illustrations, and all other costs prior to printing are not considered publication costs and may be covered in the "other cost" category.

Training Costs
This category may include fees, tuition, trainee travel costs and stipends. The budget justification will include a breakdown of costs per trainee.

Subcontractor Services
When subcontractors are necessary for the project, the total dollar amount must include the direct as well as indirect costs of the subcontracting party. These will appear as a direct cost in the MTS budget. MTS indirect costs will be assessed on the first $25,000 of each subcontract.

Unallowable Costs

Some items of direct cost are unallowable under most normal circumstances (although they can be allowed under certain circumstances if properly justified). To be justified, they must be itemized in the budget, should represent a significant part of the budget, and include a detailed justification in the budget narrative.

Direct costs considered "unallowable" in accordance with various authoritative documents and the individual Sponsors must be identified and accounted for separately. These costs may not be budgeted, charged, or reported to a sponsor.

The most common unallowable direct costs are:

- Clerical and administrative salaries with associated fringe benefits
- Postage
- Telephone/Cellular phone service
- Office and general computer supplies (paper, toner, pens, file folders, etc.)
- Software purchased for general purposes (e.g., Microsoft Word)
- Subscriptions
- Institutional and individual memberships
- Business meals (non-travel)
- Entertainment
- Membership and dues

Participant Support

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 employees) in connection with meetings, conferences, symposia, workshops, or training projects. Participant support is recorded separately in the MTS accounting system using separate sub-accounts, sub-tasks, and sub-ledgers within the project account.

Individuals receiving participant support may not be MTS employees or board member. Participants may include students, national scholars and scientists, private sector representatives, agency personnel, teachers and others who attend and participate in a formal meeting, conference, symposia, or training project.

Participant support costs are restricted and cannot be re-budgeted into other categories without prior agency approval. Participant support allowances may not be paid to trainees who are receiving compensation, either directly or indirectly, from other federal government sources while participating in the project. Local participants may participate in conference meals and coffee breaks; however, project funds may not be used to pay per diem or similar expenses for these participants.

A list of program participants must be maintained by the PI for accounting purposes. The Senior Director of Operations will also receive a copy of the participants list. The participant list will include the individual's name, affiliation, origin of travel, number of days participating in the program, number of nights lodging (if applicable), number of meals provided and registration fee (if applicable).

Payment for Participant Support Costs can include travel reimbursement, direct bill, or stipend.

If travel reimbursement, a participant must submit travel receipts to the PI within 21 days of the end of the trip. The payment will be processed and signed off by the PI and Senior Director of Operations.

If direct bill, the PI will work with the participant to directly book airfare and hotel expenses. The PI will work directly with the Senior Director of Operations to directly charge the appropriate sub-account for the project, reflecting the need to separately account for participant support.

If stipend, the stipend will be a pre-determined amount paid to the participant to help offset travel related expenses. The stipend will be a one-time payment for each participant per event.

Subaward Monitoring Policies and Subaward Agreement

Sponsored project awards made to MTS may contain provisions for Subawards that need to be administered by Subrecipients separately from the MTS prime account.

MTS monitors the activities of Subrecipients to ensure that Subaward project objectives are completed and that all funds are used for authorized purposes in compliance with applicable laws, regulations, and provisions of the grant agreement.

As a recipient of federally funded awards, MTS is a Primary Institution. When a portion of the work sponsored by the award is assigned to another entity as a Subaward, MTS becomes a Pass-Through Entity and is required to monitor the Subrecipient's use of funds, adherence to all applicable rules and regulations, and performance of work.

Execution of Subaward

1. Whenever possible, MTS will use the Federal Demonstration Partnership (FDP) standardized subcontract templates for Subaward contracts of federal funds.
2. Prior to execution of a Subaward, MTS will:
    a. Secure approvals from the Subrecipient's authorized institutional representatives for compliance, budgetary, and regulatory issues,
    b. Verify that the Subrecipient is not under federal suspension or debarment, and
    c. Review MTS's experience with the Subrecipient, if applicable.

Management of Subaward

1. The PI is responsible for monitoring Subrecipient activities and deliverables to ensure that the statement of work is being completed.
2. All Subrecipient technical and administrative reports will be retained on file and readily accessible for institutional, sponsor, and federal auditors and regulators in accordance with the federal and MTS retention policies.

Annual Review:

1. On an annual basis, MTS will require and obtain an OMB Single Audit certification form from each Subrecipient. For Subrecipients not subject to OMB 2 CFR 200F, MTS may require alternative documentation.
2. MTS will evaluate the areas of risk associated with its Subrecipients. These areas include internal control, institutional systems, previous audit information, and instances of non-compliance, and MTS will take any steps it feels necessary to mitigate risks that may be identified.

Invoice Processing

1. MTS will review every invoice for unusual, miscellaneous, excessive, or potentially unallowable charges submitted by the Subrecipient. If the explanations are insufficient to render a reasonable judgment on the allowability of the cost, MTS will require detailed justifications and support from the Subrecipient.

2. The Senior Director of Operations will review and approve every invoice prior to payment, and in doing so, will certify that the Subrecipient has performed in accordance with the contractual agreement and applicable federal regulations.
3. MTS will not process payment for charges determined to be unreasonable, that cannot be allocated or that are unallowable. Invoices will not be paid until all issues or concerns have been addressed.