

CHAPTER SIX: Financial Management of Awards

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6.1 Criteria for Charging Costs to Sponsored Programs

When charging expenses to sponsored agreements, University faculty and staff must be cognizant of the allowability of the charges. [2 CFR 200](#), “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,” provides the criteria for charging costs to federally sponsored programs. The basic principle is that costs charged to a sponsored project must be allocable, reasonable and necessary, treated consistently and adequately documented in order to be allowable on Federal awards.

1) ***Allocable***: A cost is allocable to a particular Federal award if the goods or services involved are assignable to that Federal award in accordance with the relative benefit received. For example, an investigator purchases a piece of equipment solely for use on a specific sponsored project. The entire cost of the equipment is *allocable* to that project and can be charged as a direct cost. The investigator also purchases office supplies for the entire research group with funds from a sponsored project. These supplies are not directly attributable to the project, are therefore not *allocable*, and cannot be charged as a direct cost. For more information on allocable costs see [Section 200.405 of 2 CFR 200](#).

2) ***Reasonable and Necessary***: The cost must be *reasonable and necessary* for the performance of the project. A cost is reasonable if, in its nature and 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 cost. For example, an investigator purchases lab supplies to complete work on his project. An assessment of cost and quantity was performed on the lab supplies; therefore the purchase of the supplies is considered reasonable. The lab supplies are required to complete the project; therefore the lab supplies are considered necessary. The lab supplies can be charged as a direct cost to the project.

As a comparative example, the investigator also purchases a new microscope that was on sale through the supplier from which he purchased the lab supplies. The microscope is not needed for his current project but may be needed for an upcoming project. This expense is not necessary for

the performance of the current project and cannot be charged as a direct cost. For more information on reasonable costs see [Section 200.404 of 2 CFR 200](#).

3) ***Consistently Treated***: All costs must be consistent with policies and procedures that apply uniformly to both federally-funded activities and the other activities of the University. Additionally, a cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated as an indirect cost. For example, a Unit Business Manager purchases stamps for the general use of the department using departmental funds (an indirect cost). An Investigator purchases stamps for various general mailings and charges them as a direct cost to his award. If the cost of the stamps is included as a direct cost to the Investigator's sponsored project and similar costs incurred in like circumstances (stamps for general purpose departmental mailings) are included in the calculation of the University's F&A rate, then the costs are not being treated consistently. The investigator thereby cannot charge the stamps to the sponsored project.

Any expense that does not meet all of these criteria should not be directly charged to a federally sponsored project. Note that approval of a particular expense as a direct cost by a sponsoring agency does not guarantee that the expense is an allowable cost. The expenditure must also meet the requirements as described above.

Administrative & General Purpose Costs

Administrative costs such as the salaries of clerical personnel or general purpose items such as office supplies and postage should normally be treated as indirect (F&A) costs.

Administrative and Clerical Salaries

Direct charging of the salaries of administrative and clerical staff 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.

If it is determined that administrative and clerical services are essential, vital, or fundamental to the project or activity, the salaries section of the proposal budget justification must (1) explicitly indicate how any administrative and clerical services are integral to the project with the proposed percentage of effort and (2) include the following statement in the personnel role description:

Based upon this justification, the University of Louisville is requesting agency approval for support of this position as an administrative cost allowed under 2 CFR 200.413.

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If a proposal is submitted with the required statement/justification outlined above, and the subsequent Notice of Grant Award issued by the Federal agency does not explicitly disallow the administrative cost, the administrative and clerical costs will be considered approved.

General Purpose Costs, Including Computing Devices

If a Principal Investigator wishes to charge general purpose costs directly to a federally sponsored program, the following criteria must be satisfied:

- 1) The charges must be clearly spelled out in the initial budget submitted to SPA/OIE/CCD;
- 2) An explanation of why these expenses should be charged directly to the project must be provided and the relationship of the charges to the scope of work clearly defined.

Computing devices under \$5,000/unit may be directly charged to a project or activity under the following circumstances:

- 1) The devices are essential* and allocable to the project in that they are necessary to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or

“peripherals”) for printing, transmitting and receiving, or storing electronic information; AND

- 2) The PI/PD does not have access to other devices or equipment that can achieve the same purpose; devices may not be purchased for reasons of convenience or preference.

* PIs/PDs are responsible for documenting how the device is “essential” and to what extent the cost of the device is reasonable and allocable to the sponsored project. PIs/PDs and departments must maintain documentation that describes how the computing device meets the above requirements.

Unallowable Costs

Unallowable costs are those costs that cannot be charged directly to a sponsored award due to Sponsor and/or University policy and regulation. Different Sponsors have different policies, regulations, and restrictions, therefore, whether a cost is considered allowable or unallowable on a sponsored award can only be determined through a close review of the award documentation, Sponsor regulations and guidelines, and University policy. Certain items of cost cannot be charged (directly or indirectly) to federally funded sponsored agreements. The federal government provides guidance as to the type of costs allowed and/or not allowed on federal or federal pass through awards in [2 CFR 200, Subpart E – Cost Principles](#).

6.2 Cost Transfers

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Federal regulations regarding cost transfers can be found in [2 CFR 200, Section 200.405](#). Cost transfers should be kept to a minimum by initially charging expenses to the appropriate sponsored account(s) in a timely and accurate manner. However, in those instances in which a cost transfer is required, the proposed cost transfer should comply with the following guidelines:

- 1) Documentation of the original charge must be included with the appropriate cost transfer form. Documentation must include a copy of the monthly ledger sheet reflecting the transaction and other identifying documentation such as an original receipt. This information is necessary to maintain an audit trail;
- 2) An explanation of the reason for the cost transfer is required on the appropriate cost transfer form. The explanation must address why the expense is being transferred and must provide more explanation than "boilerplate language" such as "to correct an error" or "to transfer a cost." Funding issues are not sufficient justification for moving an expense to a sponsored project.

For an expense to be transferred to a sponsored account, it must meet the following criteria:

- 1) The expense must have posted to the General Ledger;
- 2) The expense must be allowable, allocable, reasonable and necessary, and treated consistently;
- 3) The expense transfer should be posted within 90 days of the initial charge. The reason for this is two-fold; financial reports must be filed within 90 days of the completion of the project; and accounts should be reviewed for proper charges in a timely fashion. If the expense transfer is outside the 90 day window, the requesting department must provide a written explanation as to why. The explanation must be reviewed and approved by the Office of Sponsored Programs Administration, Financial Division.

In the event that an expense is determined to be unallowable on a sponsored project, the expense must be transferred to an unrestricted account. Cost transfers of salaries, wages and associated fringe benefits should be processed prior to effort certification.

Department administrators should use the Intra-University Transfer (IUT) form to initiate a cost transfer. All supporting documentation must be included. Contact the Office of Sponsored Programs Administration, Financial Administration for additional information related to cost transfers.

6.3 Rebudgeting

Rebudgeting policies vary among sponsors and are typically addressed in the terms and conditions of the award document. Many sponsors allow flexibility in revising budgets and most budget revisions may be handled directly by the Office of Sponsored Programs Administration (SPA), the Clinical Contracts Division (CCD) or the Office of Industry Engagement (OIE); however, some Sponsors require prior approval. The departmental administrator or central research administrator can assist the PI/PD in determining whether a budget reallocation requires

Sponsor approval. If Sponsor approval is required, a rebudgeting request accompanied by justification should be submitted by the PI/PD to SPA/CCD/OIE for review and submission to the Sponsor.

6.4 Deficits on Sponsored Programs

During the lifetime of a sponsored award, primary responsibility for ensuring that expenditures are in accordance with Federal, sponsoring agency, and institutional guidelines resides with the PI/PD. The University's financial system-of-record, PeopleSoft, is to be utilized by the PI/PD and their designee to monitor the expenditures placed on each sponsored project. Accordingly, the sponsored account should be reconciled to the PeopleSoft system on a monthly basis per the University's Account Reconciliation Policy.

In the event a cost overrun occurs on a sponsored award, the PI/PD and/or designee should contact the appropriate central office (SPA/OIE/CCD) to review and assist in resolving. Resolution may include the transfer of expenditures to a cost-share account or to an unrestricted source/speedtype.

6.5 Effort and Salary Allocation on Sponsored Projects

A University employee may have a portion (and in rare instances, all) of his/her salary charged to sponsored projects as outlined in 2 CFR 200.430. The basic tenets are that costs must be allowable, reasonable and necessary, allocable to the sponsored project, and treated consistently by the University as either direct costs or Facilities and Administrative (F&A) costs.

When salaries are charged to sponsored projects, the charges must be in direct proportion to the effort committed on the project. Available funding is not appropriate justification for charging salaries to sponsored projects. If an employee has committed more effort to a sponsored project than is being charged, a cost share account should be established to cover the additional costs. The department should review the allocation of salary on a monthly basis for all employees working on sponsored projects and make any necessary adjustments.

6.6 Effort Certification

Per Section 200.430 of 2 CFR Part 200, charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. Accordingly, the University must be able to certify that salary charged to a sponsored project is reasonable in relation to the effort committed on the sponsored project. The mechanism currently used to document that pay charged to a Federally sponsored project is reasonable relative to actual effort is the Effort Certification Report. The University has chosen to certify effort on a semi-annual basis. The first certification period covers July 1 through December 31; the second certification period, which is the official institutional record, covers the entire fiscal year July 1 through June 30.

When Effort Reports are reviewed at the department level it is recommended that the person who is most knowledgeable of the individual's effort certify that effort. In most cases, faculty should

certify for themselves and direct supervisors may certify on behalf of their employee(s). It is unallowable for UBMs to certify effort for faculty and staff. An Effort Report must be submitted for all individuals who are paid on Federally sponsored projects.

6.7 Program Income

Program income is defined by the Federal government as “gross income earned by the grantee or subgrantee, which is directly generated by a grant supported activity or earned as a result of an award.” Program income includes, but is not limited to, income from fees for services performed (i.e., fees collected for conferences or training classes incidental to the accomplishment of approved grant purposes), the use or rental of real or personal property acquired under Federally funded projects, and the sale of commodities or items fabricated under an award. In accordance with Federal awarding agency regulations or the specific terms and conditions of the award, program income may be applied in one or more of the following ways:

- 1) Added to funds committed to the project by the Federal awarding agency and used to further eligible project or program objectives;
- 2) Used to finance the non-federal portion (cost share) of the project or program;
- 3) Deducted from the total project or program cost.

It is the responsibility of the PI/PD to track, document, and report program income. In most cases, this reporting is done at the time of a continuation or renewal of an existing project. The Office of Sponsored Programs Administration, Financial Division can assist the PI/PD in making a determination as to whether income meets the definition of program income as well as provide guidance on the administration of program income.

Additional information on Program Income can be found in [Section 200.307 of 2 CFR 200](#).

6.8 Cost Sharing on Sponsored Projects

Cost sharing or matching funds are the portion of project costs not paid for by the Sponsor. Per [2 CFR 200](#), voluntary cost sharing is not expected and cannot be used as a factor during merit review of proposals unless it is required by the notice of funding opportunity. PIs/PDs are discouraged from including voluntary cost sharing on sponsored projects.

When cost sharing is committed on a sponsored project it must be budgeted and tracked as part of the project. Mandatory and committed cost share require the transfer of funds from an unrestricted source to a cost share speedtype that corresponds to the related sponsored project.

Additional information can be found in the [Cost Sharing policy](#) and in the [Cost Sharing procedure](#).

6.9 Uncollectible Costs

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When the University enters into a sponsored agreement there is the expectation that the Sponsor, the PI/PD, and the University will abide by the agreed upon terms and conditions, including payment terms. In the event that issues with payment arise, action must be taken to address and resolve the issue. The Office of the EVPRI (SPA/OIE/CCD) will work with the PI/PD and/or designee to develop an action plan for resolution.

There may be instances in which the Sponsor is unable or unwilling to reimburse the University for expenses incurred. When the Sponsor does not pay the amount due, the department may be responsible for covering the cash deficit. Examples include:

- 1) The sponsor filed for bankruptcy or went out of business;
- 2) The PI/PD performing the work failed to complete the project in accordance with the terms and conditions of the agreement;
- 3) The PI/PD began the work prior to receiving the award; however the award was not funded.

The Executive Vice President for Research and Innovation and/or Vice President for Finance will review any unresolved instances on a case-by-case basis.

6.10 Service Center Costs

Allowable direct costs generally include charges from University facilities that provide specialized services. Please view the [University of Louisville Service Center Policy \(PDF\)](#).

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