UC Santa Barbara

Departmental

Costing

Guidelines
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I. Overview

The guidelines detailed in this document apply to accounting practices for all funds and fund sources at UCSB. Even though the force behind the guidelines is a need to comply with federal regulations in order to retain federal funding, the requirement for consistency in all our practices is paramount. The campus has one set of practices, policies, and procedures for all funds.

A. Cost Accounting Standards

The Federal Office of Management and Budget (OMB) oversees accounting practices for federally funded grants and contracts at colleges and universities. OMB has made several revisions to Circular A-21, *Cost Principles for Educational Institutions* (5/8/96). In general, A-21 sets forth the principles for determining whether costs are direct, indirect, allowable, or unallowable as they pertain to federally sponsored projects. A-21 also specifies acceptable cost allocation methods.

In addition, the Cost Accounting Standards Board (CASB) has issued cost accounting standards for colleges and universities. Twenty-two cost accounting standards have been established for commercial organizations performing federally sponsored projects. Four of these standards, issued by the CASB in 1995, are applicable to colleges and universities and have been included in A-21. The four standards are:

- **501—Consistency in Estimating, Accumulating, and Reporting Costs**
  This standard requires that the practices used in accumulating and reporting actual costs on a contract or grant are consistent with practices that were used in estimating costs on the proposal.

- **502—Consistency in Allocating Costs Incurred for the Same Purpose**
  This standard requires that costs incurred for the same purpose, in like circumstances, be treated consistently as either direct or indirect costs. This standard applies to all costs regardless of funding source.

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1 OMB Circular A-21 can be accessed on the Internet at the following URL: http://www.whitehouse.gov/WH/EOP/OMB/html/circulars/a021/a021.html
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• 505—Accounting for Unallowable Costs
  This standard requires that unallowable costs be identified and accounted for separately from allowable costs.

• 506—Cost Accounting Period
  This standard requires the consistent use of the same cost accounting period for purposes of estimating, accumulating, and reporting costs.

This document provides the costing guidelines that will assist departments in complying with these four standards.

B. Requirement to Submit Disclosure Statement

As a recipient of federal awards, UCSB is required to prepare indirect cost rate proposals that are in compliance with the guidelines set forth in A-21. In addition, UCSB is required to file a Cost Accounting Standards (CAS) Disclosure Statement identifying accounting practices, policies, and procedures for assigning both direct and indirect costs to federally sponsored programs, and to attest to the consistent treatment of those practices. UCSB’s Disclosure Statement must be updated\(^2\) whenever there is a change in costing practices.

C. Indirect Cost Calculations for Federally Funded Projects

A-21 establishes the principles for determining costs applicable to grants and contracts with educational institutions. A-21 defines allowable (direct and indirect) costs and unallowable costs and specifies the indirect cost categories (pools) that should be established for accumulating and allocating allowable institutional costs to research projects. Allowable indirect costs are normally accumulated into the following seven indirect cost pools:

- equipment and building depreciation and use allowances
- operation and maintenance expenses
- general administration and general expenses
- departmental administrative expenses

\(^2\) Initial disclosure statement submission date: 6/30/97
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- sponsored projects administrative expenses
- student services administrative expenses
- library expenses

These indirect pools are then distributed, or allocated, among various functions such as instruction; sponsored or organized research; and other major institutional activities of the university. The methods used to allocate costs associated with each pool to each institutional function vary, but are most often based on space or “modified total direct costs” for each function to which costs are to be allocated. For some pools, other methods of cost allocation may be used, depending on what A-21 requires or what the university can justify as fair. Thus, a portion of each pool is to be allocated to each function as appropriate.

After all costs have been allocated to the relevant functions, the total costs allocated to organized research are used to determine the indirect cost rate. This indirect cost rate is calculated by dividing the total indirect costs allocated to organized research by the MTDC base for organized research. The actual rate for reimbursement, however, is subject to negotiation between the university and its federal cognizant agency.

D. Purpose of Departmental Guidelines

This document is a reference for UCSB departments to guide accounting practices that result in consistency for charging costs to extramurally sponsored grants and contracts as well as all other fund sources. Specifically, this document sets forth guidelines for the following:

- defining which costs may/may not be charged to extramurally sponsored projects
- accounting for direct and indirect costs
- managing sponsored project cost overdrafts
- identifying when effort reports (PARs) must be completed

3 MTDC or modified total direct costs are the total direct costs against which indirect costs are applied. Certain items of direct costs such as equipment, participant support costs, tuition remission, fellowships are excluded from indirect costs.

4 Currently, the Department of Health and Human Services is the federal cognizant agency for monitoring and negotiating research costs with the University of California.
• defining appropriate use of university accounts for specific institutional activities (e.g., instruction, research)
• accounting for transfers of expense
II. Departmental Guidelines

A. Categories of Costs

The following definitions of categories of costs and the described costing practices apply whether or not they are related to sponsored project funds. In other words, direct, indirect, and unallowable cost categories can be identified for instruction, student services, financial aid, research, and other institutional activities.

1. Definition of Costs

**Direct Costs** are those costs that can be specifically identified with a particular sponsored project, instruction, or other institutional activity (such as student services, financial aid, or public service.)

**Indirect Costs** are costs that cannot be specifically identified with a particular sponsored project or other direct activity such as instruction or research. These costs, instead, are generally related to departmental operations and administrative activities that support sponsored projects and other institutional activities.

**Unallowable Costs and Activities** are those costs and activities that cannot be directly charged to a federal contract or grant nor can they be included in the indirect cost rate calculations. Section II-A-4 provides an overview of unallowable costs and activities.

2. Direct Costs

Identification with the specific work is the key determining factor in distinguishing direct costs. Typical direct costs are compensation (including benefits) for employees for performance of work under a sponsored agreement and the cost of goods and services consumed or expended in the performance of that work (including extraordinary use of utilities or services of specialized facilities.)
Program-Specific Activities

Although general departmental support should normally be considered an indirect activity, A-21 provides that direct charging of these costs may be appropriate where the nature of the work performed under a particular project requires an extensive amount of administrative or clerical support (A-21, F.6.(b)). Further interpretation by the federal government provides that:

*EXTENSIVE administrative program support, SIGNIFICANTLY greater than the routine level provided by academic department administrative and clerical staff*

may be direct charged to a sponsored project if

*the activity is INCLUDED IN THE PROJECT BUDGET OR REVISED BUDGET and ADEQUATE DOCUMENTATION is available to support the direct charge.*

Examples of program specific support include, but are not limited to, the following. These examples are not intended to imply that direct charging of these activities is always appropriate.

... Performing administrative activities beyond the routine (e.g., preparing a mass mailing for a specific project)
... Project specific computer programming and systems development
... Extensive data entry (like entry of survey responses for a project)
... Extensive research data collection
... Extensive interviewing and associated transcription
... Conducting a telephone survey
... Planning and organizing large conferences
3. **Indirect Costs**

Although not an exhaustive list, the following activities represent routine administrative and clerical activities that are considered indirect and *are not normally charged to a sponsored project*:

... General departmental administration
... Contracts and grants administration
... Development of proposals and associated activities
... Personnel activities
... Accounting and budgeting activities
... Routine filing, typing, copying, mailing
... Processing vouchers and payments
... Routine travel planning
... Routine data entry
... Routine telephone answering and reception
... Newsletter/brochure preparation
... Preparing, processing, and tracking routine purchase orders
... Maintaining administrative databases
4. **Unallowable Activities and Transactions**

A-21 lists some activities as unallowable to federally sponsored programs as either direct or indirect. This includes all costs associated with these activities. Generally, such activities will be recorded within a specific non-federally funded account. These accounts are excluded from the indirect cost calculation.

In other cases, individual transactions may be unallowable. Departments/divisions must code such unallowable transactions with specific object codes to omit them from the indirect cost calculation.

This section addresses those entire activities that are unallowable. Section C-3 - Unallowable Categories of Expense covers specific unallowable transactions.

- **Lobbying**
Federal funds may not be used for any type of partisan political activity by any person or organization involved in the administration of federally-assisted programs. “Political activities” include, but are not limited to lobbying, publishing, and preparing materials intended for influencing legislation.

- **Fund Raising**
Organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are unallowable for federal reimbursement as either a direct or indirect charge.

- **Commencement and Convocations**
Costs incurred for commencements and convocations are unallowable except in the administration of student affairs and for services to students.

- **Other Unallowable Activities**
Federal funds may not be used for any intramural activity, student publications, student clubs, other student activities, alumni activities and similar services, unless specifically provided for in the sponsored program.
B. UCSB Activities, Account Numbers, and Function Codes

UCSB account numbers are designed to reflect specific institutional activities. The first two digits of each six digit account number is referred to as a function code and identifies the approved institutional activity that may be charged to that account. For example, 40XXXX is an account for instructional activity and 44XXXX is an account for research.

Departments need to determine whether a cost is a direct cost, an indirect cost, or an unallowable cost and record it in the appropriate account/fund. For example, a faculty member has a single telephone in their office/lab. The faculty member incurs toll charges on that phone that support both instruction and extramurally funded research activities. If a toll charge was incurred in support of the extramural research activity, it needs to be recorded as a direct cost in the appropriate account/fund (i.e. the account/fund assigned to the contract or grant.) However, the charges for the single line phone instrument (i.e. the monthly phone equipment charges) cannot be easily identified to a specific activity or project since the phone is being used for a variety of activities. These telephone equipment charges are normally viewed as indirect costs, and are recorded in the departmental operating expense account/fund with all other general administrative expenses of the department. Typically, in an academic department this is 40XXXX/19900. This account is a joint purpose account in that it supports both direct costs for instruction and indirect costs associated with general administrative/operating expenses.
The following table summarizes UCSB’s account numbers, activities, and function codes.

<table>
<thead>
<tr>
<th>UCSB Activity/Function</th>
<th>Account Number/Function Code</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Instruction</td>
<td>40XXXX</td>
<td><em>Instruction</em> includes all current expenditures associated with instructional and teaching activities of a department or division, including continuing education and summer session. Expenditures for sponsored training and research performed as part of regular instruction programs are included in this activity. The <em>Instruction</em> activity may include departmental administrative support activities and other indirect costs.</td>
</tr>
<tr>
<td>Organized Activities/Academic Support</td>
<td>43XXXX</td>
<td><em>Organized Activities/Academic Support</em> includes expenditures for activities operating in support of academic departments (e.g. academic department shops, computing facilities, and vivaria.) Only direct activity costs may be charged to 43XXXX accounts.</td>
</tr>
<tr>
<td>Research</td>
<td>44XXXX through 59XXXX</td>
<td><em>Research</em> includes all research activities that are funded by external agencies or by UCSB (where funds must be separately budgeted and accounted for). It includes operating expenditures for separately organized research units, including research institutes, centers, and laboratories. Only <em>direct activity charges may be made to federally sponsored grants and contracts</em>. Indirect activities <em>may</em> be charged to non-federal Research account/funds, when allowable (e.g., non-federal discretionary gifts).</td>
</tr>
<tr>
<td>Library</td>
<td>60XXXX</td>
<td><em>Library</em> includes all expenses that have been incurred for the operation of the library.</td>
</tr>
<tr>
<td>University Extension</td>
<td>61XXXX</td>
<td><em>University Extension</em> includes all expenses incurred in the operation of University Extension general, professional, and other programs.</td>
</tr>
<tr>
<td>Public Service</td>
<td>62XXXX</td>
<td><em>Public Service</em> includes expenditures for non-instructional activities that benefit the general public, such as cultural activities (e.g. Arts and Lectures).</td>
</tr>
</tbody>
</table>
UCSB Activities, Account Numbers, and Function Codes, continued

<table>
<thead>
<tr>
<th>UCSB Activity/Function</th>
<th>Account Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>Maintenance and Operation of Physical Plant</td>
<td>64XXXX</td>
</tr>
<tr>
<td>Maintenance and Operation of Physical Plant accounts are typically assigned to Physical Facilities and includes all those costs incurred for the administration, supervision, operation, maintenance, preservation, and protection of the institution’s physical plant.</td>
<td></td>
</tr>
<tr>
<td>Institutional Support</td>
<td>66XXXX</td>
</tr>
<tr>
<td>Institutional Support includes support services that benefit common or joint departmental activities such as accounting and other administrative services</td>
<td></td>
</tr>
<tr>
<td>Student Services</td>
<td>68XXXX</td>
</tr>
<tr>
<td>Student Services includes expenses incurred for the administration of student affairs and for services to students such as the registrar, admissions, dean of students, commencement.</td>
<td></td>
</tr>
<tr>
<td>Auxiliary Services</td>
<td>76XXXX</td>
</tr>
<tr>
<td>Auxiliary Services includes self-supporting campus community activities (not departmental activities) such as the bookstore, and housing and residential services</td>
<td></td>
</tr>
<tr>
<td>Student Financial Aid</td>
<td>78XXXX</td>
</tr>
<tr>
<td>Student Financial Aid includes expenditures for scholarships, fellowships, and stipends for students, trainees, and fellows. These costs are excluded from indirect cost calculations.</td>
<td></td>
</tr>
</tbody>
</table>
C. **Proposal Budgets**

CAS requires that the practices used in charging and reporting actual costs on a contract or grant be consistent with the practices used in estimating costs on the proposal. When preparing proposal budgets, only costs that are allowable, allocable, reasonable, and normally treated as direct costs should be included (see Section II.C.). In those instances when it is necessary to include a proposal budget, a cost that does not meet these criteria, specific justification must also be provided in the budget.

Intercampus recharges for research related goods and services such as facility or equipment usage, university automobile rentals, or specialized technical services may be included in a project budget. All recharges must be directly allocable to the project, and should be estimated and escalated based on the Estimating Project Costs guidance found on the Office of Research Website. See also the UCSB Budget & Planning Income & Recharge webpage for additional information on recharge policies and procedures at UCSB.

When you estimate your costs, you should remember that costs increase over time. Because of this, we recommend that you include a modest escalation in the estimate of costs for direct charges. Escalating costs is consistent with the University's cost principles, and with the University's policy of recovering all costs of conducting sponsored projects. Escalation helps to ensure that your project receives adequate funding. You should use an escalation rate of 3 to 5% for most direct costs. There are two exceptions to this - Salaries and Wages, and Graduate Student Tuition, Fees, and Health Insurance should be escalated in accordance with those rates indicated in these sections on the Office of Research Website.

Costs included in proposal budgets must be based upon reasonable and consistently applied methods of estimating. All costs included in a proposal budget must be supported by documentation, even if that documentation consists only of the University policy that specifies how that cost is to be estimated.

Examples include:

- **Salaries and Benefits:** UCSB Research Circular B.3 “Salary Scales and Fringe Benefits Applicable to Preparation of Budgets for Extramural Support“ (http://research.ucsb.edu/spo/sprcb3.htm) should be used, unless actual costs can
be calculated for named employees;

- **Equipment**: vendor catalogs and quotes;

- **Supplies and Materials**: vendor catalogs, quotes, or supported departmental data based on other, similar projects;

- **Subcontracts and Consultants**: cost proposals from the subcontractor or consultant;

- **Travel**: UC travel policy, and for those costs not included in the policy, such as airfare or car rental, quotes from a travel agent;

- **Publications**: quote from the journal;

- **Recharges**: only a rate approved by the UCSB Rate and Recharge Committee may be included (see Section II.F).
D. Expenses

Adherence to the federal cost principles and procedures outlined in A-21 is critical when charging costs to federal awards. The basic requirements are:

- Each transaction (e.g., purchase order, travel expense voucher, etc.) charged to a project must include backup documentation which adequately explains the purpose of the transaction and the benefit to the project, *unless explicitly approved in the budget*. This backup can take the form of a budget justification, a note from a PI, or notes to the file as well as standard backup such as how a charge was calculated, different vendors that were considered and their bids, etc. Failure to comply could result in a disallowance of a legitimate charge.

- Costs must be necessary for the performance of the sponsored agreement. A particular cost may be allowable on one project, where it is needed for performance, but unallowable on another project where no similar performance requirement exists.

- Relative benefit must be approximated through the use of reasonable methods. Costs should be allocated to the users in proportion to the benefits received. For example, the cost of repair on a piece of equipment that is being used by three different projects should be divided equitably among the three projects.

- Costs applicable to one award or activity may not be charged or shifted to another unrelated award or activity. For example, it is *not* allowable to move expenditures from Project A to Project B in order to eliminate an overdraft on Project A. (See Section II-D Cost Transfers.)
1. **Payroll Expenses**

   • **Faculty & Professional Research Salaries and Wages**
     Salaries and wages of faculty and professional researchers paid by the University should normally be *directly* charged to an instruction or research account. Direct charges to a sponsored project are allowable to the extent they reflect the level of effort expended on the project, are documented in the University effort reporting system, and are permitted by the agency.

     Fringe benefits in accordance with established University policies are allowable as direct costs to a sponsored project and are charged to projects in proportion to salary distribution.

     Effort to support general departmental or college activities (e.g., Dean’s Office, etc.) are considered indirect and must not be charged directly to a sponsored project. Instead, these costs must be charged to a departmental account that will be included in the indirect cost pool.

   • **Administrative & Clerical Salaries and Wages**
     In general, salaries and wages of administrative and clerical staff should not be treated as direct costs to contracts and grants. A-21 (Section F.6(b)) states the following regarding direct charging for administrative support costs:

     *The salaries of administrative and clerical staff should normally be treated as indirect costs. Direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and the individual involved can be specifically identified with the project or activity.*

     Direct charging of departmental/divisional administration costs may be appropriate when the nature of the work performed on a particular project requires an *extraordinary and extensive* amount of administrative or clerical support which is *significantly greater than the routine level* of services provided by the academic departments/divisions. The costs must
be attributable to the project and the circumstances must be justified to the satisfaction of the awarding agency. (See discussion of Program Specific Activities in Section II-A-2.)

Fringe benefits in accordance with established University policies are allowable and are charged to projects in proportion to salary distribution.

2. Non-Payroll Expenses

The cost items discussed in this section are some of the more common departmental costs at UCSB. A-21, Section F.6(b) states:

_In developing the departmental administration cost pool, special care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or indirect costs. For example, salaries of technical staff, laboratory supplies (e.g., chemicals), telephone toll charges, animals, animal care costs, and specialized shop costs shall be treated as direct costs wherever identifiable to a particular cost objective. Direct charging of these costs may be accomplished through specific identification of individual costs to benefiting cost objectives, or through recharge centers or specialized service facilities, as appropriate under the circumstances...Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as indirect costs._

The review of the cost items listed in this section is provided as general guidance only.

_It should be emphasized that costs incurred in like circumstances should be consistently charged as direct or indirect._ For example, if a department/division direct charges long distance telephone charges to a sponsored program, then all other remaining long distance charges should be charged to Instruction, or Departmental Administration, and be identified to the appropriate account/fund and object code.
Correct use of object codes is critical to the accurate identification of costs that should, and should not, be included in the campus indirect cost pool. A partial list of expenses and their related object codes follows.

- **Telephones (Object Code 4100)**
  Basic telephone line and equipment charges and local telephone services are normally treated as indirect costs.

  Long distance and fax charges must be charged to a sponsored project or other benefiting activity (e.g., Instruction, Departmental Administration, etc.).

- **Postage and Mail (Object Code 4400)**
  Ordinary and routine postage costs and mail stop charges are treated as indirect costs.

  Costs of an extraordinary amount of postage (e.g., for a mass mailing) must be charged to the fund source supporting the specific project (the sponsored project’s account for mailing associated with a contract/grant, or a departmental account for departmental mailings).

  Overnight delivery costs must be charged to the appropriate benefiting account/fund.

- **Photocopying and Reproduction (Object Code 6050)**
  Routine copying and reproduction costs are treated as indirect costs.

  Extensive copying and reproduction costs must be direct charged (e.g., the reproduction of a publication or other project exclusive material).

- **Leases & Rentals (Object Codes 5000, 5100, 5300, 5400, 5500)**
  Lease costs must be charged to a sponsored project (if approved) or other benefiting activity (e.g., Research, Instruction).
• **Utilities (Object Code 5200, 5210, 5220, 5230, 5250, 5260)**
  Utility costs are normally treated as indirect costs. If utility costs are associated with a lease agreement, they should be charged to the benefiting activity.

• **Repairs & Maintenance (Object Code 7100, 7150)**
  Core service repairs and maintenance for state supported space in UCSB buildings (non-leased) must be treated as indirect costs.

  Special need services that are not covered by Facilities Management maintenance services must be charged to the benefiting activity (e.g., Research or Instruction).

  Repairs and maintenance costs for equipment that is either installed as part of a State-funded capital project or which is an integral part of a central building system must be treated as indirect costs. Repairs and maintenance costs for all other equipment, whether fixed or moveable, must be charged to the benefiting activity (e.g., Research or Instruction).

  Repairs and maintenance costs for leased space for which state operations and maintenance funding is received and managed by UCSB Facilities Management Department must be treated as an indirect cost. Repairs and maintenance costs for leased space that is *not* state supported must be charged to the benefiting activity (e.g., Research or Instruction).

• **Office Supplies (Object Code 8000, 8001-8009, 8015, 8070, 8075)**
  Office supplies are normally treated as indirect costs. However, an extensive amount of office supplies *significantly greater than the routine level* may be charged to the benefiting activity.

• **Lab Supplies (Object Code 8030, 8040, 8050, 8060)**
  Lab supplies must be charged to the benefiting activity (e.g., Research or Instruction).

• **Equipment (Object Code 9000 and 9900)**
Current UC policy defines equipment as “an article of non-expendable tangible personal property having a useful life of more than two years, and an acquisition cost of $500 or more per unit.” When the University acquires equipment using federal funds, it must assure that purchases are necessary for the conduct of the project. Other alternatives, such as leasing, should be evaluated prior to purchases being made.

- **Memberships/Subscriptions—Allowable (Object Code 7220)**
  Costs for memberships in technical, and professional organizations are treated as indirect costs. Costs for subscriptions to professional, or technical periodicals must be charged to the benefiting activity (e.g., Research or Instruction). Subscriptions may be charged to federally sponsored projects if the periodical is not reasonably available to the faculty member and if it benefits the specific project.

- **Allowable Advertising Costs (Object Code 7230)**
  Allowable advertising costs must be charged directly to a benefiting activity if the purpose of the costs is for the recruitment of personnel, the procurement of goods and services, the disposal of scrap or surplus materials, and other specific purposes necessary to meet the requirements of a sponsored agreement or other program.

- **Allowable Meetings & Conferences (Object Code 7250)**
  Meetings and conferences are considered allowable direct costs to sponsored projects when the primary purpose of the meeting is dissemination of technical or project-related information. If the costs associated with these types of activities are not directly charged to a sponsored project, they must be charged to the benefiting activity (e.g., Research or Instruction).

  Specific restrictions on certain meeting-related costs, including use of economy class modes of transportation, US flag air carriers, and restrictions on purchase of certain items, including alcohol, also apply.

- **Scholarships and Fellowships (Object Code 7770)**
Any payment made to an individual under a scholarship or fellowship is an allowable direct charge to a federally sponsored program if the purpose is to provide training and it is approved by the sponsoring agency.

- **Allowable Travel**—
  Allowable travel costs (e.g., for recruiting or the dissemination of information at a conference, and other allowable activities) must be charged to the benefiting activity. For example, travel costs associated with recruitment or other instructional activities must be direct charged to an Instruction account/fund; travel costs associated with a sponsored agreement that is allowable under the funding agency’s rules must be direct charged to the sponsored project.

3. **Unallowable Categories of Expense**

   The costs listed below are typically unallowable as charges to sponsored projects. *Unallowable expenditures must not be charged to federal programs, either directly or indirectly. Use of the correct object code prevents these charges from being included in the indirect cost calculation. Departments should exercise due diligence to assure that the appropriate object codes are used.*

- **Fines & Penalties (Object Code 7700)**
  Costs resulting from violations of, or failure to comply with, federal, state, and local laws and regulations (including University regulations) are unallowable, except when incurred as a result of compliance with specific provisions of the sponsored agreement.

- **Donations and Contributions (Object Code 7710)**
  Donations or contributions made by the institution, regardless of the recipient, are unallowable.
• **Unallowable Memberships (Object Code 7720)**
  Membership costs for any civic or community organization, or for any country, social, or dining club or organization are unallowable.

• **Unallowable Advertising (Object Code 7730)**
  Costs associated with events related to instruction or other institutional activities including displays, demonstrations and exhibits are unallowable charges to federally sponsored programs. These costs must be direct charged to an Instructional account/fund.

• **Social Activities & Unallowable Entertainment (Object Code 7750)**
  Costs incurred for alcohol, amusement, social activities, entertainment (e.g., tickets to shows or sporting events), and any related items, such as meals, lodging, rentals, transportation, and gratuities are not allowable charges to federally sponsored programs. Entertainment costs associated with such items as flowers, party balloons, or other sensitive items should be charged to the unallowable entertainment object code. Special care should be taken to ensure that unallowable entertainment costs are not charged to federal projects.

• **Costs of Legal Proceedings (Object Code 7780)**
  Costs incurred in connection with any criminal, civil or administrative proceeding are unallowable charges to federally sponsored programs unless the costs were a result of a specific term or condition of a federally sponsored agreement or specific written direction of an authorized official of the sponsoring agency.
E. Project Cost Overdrafts

Costs that exceed the budget on a sponsored agreement must be reimbursed or transferred to a non-federal account/fund with the same function as the account/fund in which the overdraft occurred. For example, a research cost overdraft could be charged to a 44XXXX account with an appropriate funding source (i.e. 19900 or 07427), but not to a 40XXXX account.

F. Cost Transfers

Expenses and costs are to be charged directly to the account/fund/sub/object code (hereafter referred to as A/F/S/O) to which they pertain. If a cost or expense has been charged to an A/F/S/O it can be moved to another A/F/S/O, if the following conditions are met. The process of moving this cost to its new A/F/S/O is called a Cost Transfer. The following conditions and criteria are used to determine whether and how a cost can be transferred to a new A/F/S/O.

1. Conditions

Once an expense has been recorded in an A/F/S/O in the general ledger, it is appropriate to make expenditure adjustments only in the following situations:

- To correct an erroneous recording, such as when the original source document(s) (e.g., invoice, payroll, purchase order) cited an incorrect account, fund, sub, or object code.

- To record a change in the decisions made originally as to the use of goods or services (e.g., a case of beakers originally ordered for and charged to a teaching program may be subsequently transferred to a research project). In requesting expenditure adjustments, an authorized department administrator is certifying that the original (direct charge) recording was a proper and legitimate charge against the A/F/S/O cited; that the original
charge is now being invalidated; and that the second A/F/S/O is the correct one to charge.

• To redistribute certain high volume low cost charges (e.g., copy machine rental and paper costs, telephone charges, mailing charges, or charges for office supplies) which are billed to departmental account(s)/fund(s), but a portion of which may apply to other account(s)/fund(s) under the jurisdiction of the department. Departments must maintain internal records/logs of such usage to support the adjustment.

2. Criteria

A request for adjustment of expenditures shall meet the following tests when the adjustment is to transfer a cost.

• It must relate to individual units of measure or items of expenditures incurred by the department requesting the adjustment.

• It must contain a reference to the invoice, payroll, purchase order, or other disbursement document(s) which initiated the original direct charge.

• It must be the amount originally recorded in the University general ledger, or a portion of the original amount.

• It must be fully explained, justified, and approved by the authorized department administrator(s) involved in the transaction. (An explanation which merely states that the adjustment being made is "to correct an error," "to transfer to correct project," or "expenditure inadvertently charged to incorrect A/F/S/O" is not sufficient.) In the case of adjustments which involve grants and contracts, the certification and approval signatures must include that of the principal investigator, department head, or other academic official.
• It must be recorded via the appropriate form (such as the payroll expenditure adjustment request, the non-payroll expenditure adjustment request, or the financial journal) and it must be submitted with the appropriate supporting documentation.

• It must be reviewed and approved by the Accounting Office for compliance with applicable campus and University policies and terms of funding source agreements.

• It must be recorded in the general ledger within 120 days of the original charge. (See following General Ledger Deadlines for Cost Transfers.) If because of unavoidable circumstances an adjustment has to be made beyond the 120-day period, a full explanation, including a well-documented account of all the events leading to the tardy adjustment, must be provided (for extramural contracts and grants, this explanation must be signed by the principal investigator, department head, or other academic official).
General Ledger Deadlines for Cost Transfers

All cost transfers need to be prepared within 120 days after the original charge appeared in the general ledger. The following is the ledger date of the original charge and the last month the transfer can be made without requiring a 120 day memo.

<table>
<thead>
<tr>
<th>Ledger Date of Original Charge</th>
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<td>June</td>
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</table>
G. Recharge Costing Process/Review

A recharge is the assessment and collection from one university unit for products or services furnished by another university unit. The campus has established policies and procedures for charging organizational units for support services that includes all allowable costs associated with providing the products or services.

Recharges must be charged to the benefiting activity. Recharge costs charged directly to a sponsored project are allowable as long as the department charging the project has followed the current UCSB Income and Recharge Guidelines and the recharge rate has been approved and authorized through the Campus Income and Recharge process. The campus requires that existing rates be approved on an annual basis.

H. Effort Reporting

Effort reporting is required by A-21 and is designed to substantiate effort spent by all employees, any part of whose salaries are charged directly to federal funds or federal flow-through funds.

Effort reports reflect after-the-fact reporting of the percentage distribution of categories of employee activities. Payroll charges may be made initially on the basis of estimates made before the services are performed, provided that such charges are promptly adjusted if significant differences are found.

1. PARs

All personnel whose salaries are paid in full or in part from federal or federal flow-through funds must complete a PAR form quarterly (three month periods ending March 31, June 30, September 30, and December 31).

- Faculty and professional employees’ PAR forms must be verified by the employee or responsible academic official, such as the Department
Chairperson or Dean, having firsthand knowledge of the work performed, that the work was performed and the distribution of effort is reasonable.

- Non-academic employees’ PAR forms must be verified by a supervisor, business manager, or principal investigator, having first hand knowledge of the work performed, that the work was performed and the distribution of effort is reasonable.

It is recognized that in an academic setting, teaching, research, and administration are often intermingled. A precise reporting of effort is not always possible. Reliance is placed on estimates to establish the individual’s payroll distribution to account/fund sources. After-the-fact effort reporting should equal or exceed the percentage of payroll charged to a sponsored project or a payroll adjustment must be made to match the charge with the effort. In general, effort reporting and payroll distributions should reasonably reflect actual effort.

2. Cost Sharing

Cost sharing is defined as program or project costs not supported by the sponsoring agency. Cost sharing costs often may be assigned to an account/fund whose function does not appropriately reflect the function of the cost sharing expenditures. For example, costs incurred as cost sharing on a Research account/fund may be transferred to an Instruction account/fund. Capturing cost sharing appropriately, whether mandatory (stipulated as a condition of the agreement) or voluntary (discretionary use of matching funds from gifts, departmental funds, etc.) supports the development of UCSB’s indirect cost rate proposal. Effort that is included on a sponsored project, but not funded by the sponsoring agency should be considered cost sharing and should be identified in the accounting system.

UCSB’s current effort reporting system is unable to capture unfunded effort incurred on sponsored projects. Until an automated system is available, the Campus Accounting Office will assist departments/divisions in accumulating and tracking those costs associated with mandatory cost sharing.
Appendix A
Costing Guidelines Glossary

Account - A six digit code number assigned to track financial transactions. See section II-B for more information on UCSB account numbers.

Allocable Costs - Those costs that actually benefit the grant or contract to which they are being charged.

Allocation of Costs - The process of assigning a cost, or a group of costs, to one or more sponsored projects or institutional activities in reasonable and realistic proportion to the benefit which the cost provides to the projects or activities.

Allowable Costs - Those costs that are permitted under A-21 or other agency guidelines.

Appropriation - Authorization to expend funds within specified restrictions such as amount, time period, and objective. The authorized amount is distributed to various sub accounts.

Audit - A formal examination of an organization’s or individual’s accounts or financial situation. An audit may also include examination of compliance with applicable terms, laws, and regulations.

Award - A formally accepted agreement from a funding agency for a particular project.

Budget - The detailed statement estimating project expenditures for a specific period.

Budget Adjustment - The act of amending the estimated projected expenditures from one category or line item to another.

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Sources of data: OMB Circular A-21; UCLA Sponsored Research, Research Administration, Glossary; UCSB Accounting Office; UCSD Cost Accounting Standards Implementation; UCSF Academic Department Training for Charging Practices
**Budget Period** - The interval of time, usually twelve months, into which the project period is divided for budgetary and funding purposes.

**CAS** - See Cost Accounting Standards

**Cash** - Money received from external funding agencies to cover expenditures.

**Consistency** - Using the same methods in estimating, accounting and reporting costs. Costs incurred for the same purpose in like circumstances are consistently treated as direct or indirect.

**Contract** - An agreement for the procurement of goods and services. For a research contract, the topic and the methods for conducting the research are specified in detail.

**Cost Accounting Standards** - Federally mandated accounting standards intended to ensure uniformity in budgeting and spending funds.

**Cost Sharing** - This refers to the University bearing costs associated with the conduct of a sponsored project that the University might otherwise charge to the sponsor agency. When cost sharing is mandatory, reporting of cost share contributions must be documented on a project by project basis.

**Cost Transfer** - The process of moving expenses from one account/fund/sub/object code to another.

**Costing Practices** - The set of rules, policies, and guidelines followed by the institution in allocating costs to direct and indirect activities.

**Departmental Administration** - Administrative and supporting services that benefit common or joint departmental activities or objectives in academic deans’ offices, academic departments and divisions, and organized research units.

**Direct Costs** - Costs which can be readily identified with a specific sponsored project or institutional activity and are not already identified as indirect costs. General categories of direct costs include but are not limited to salaries and wages, fringe benefits, supplies, contractual services, travel, communication, equipment, and computer use.
Disclosure Statement - A statement describing accounting practices, policies, and procedures for assigning both direct and indirect costs to federally sponsored programs, and to attest to the consistent treatment of those practices.

Donation - A synonym for gift (see gift definition).

Effort Reporting - Periodic reporting of effort spent on a particular project or activity.

Encumbrance (Lien) - Setting aside funding for future goods or services.

Expenditure - The recording of the cost of goods or services.

Facility & Administrative Costs (F&A) - See Indirect Cost Rate definition.

Federal Flow Through Funds - Federal funds for contract and grants which is awarded to the University via one or more non-federal sponsors.

Fund (n.) - A five digit code established to ensure accountability and expenditure for designated purposes. Each fund is a separate entity requiring a self-balanced group of accounts, having its own assets, liabilities, revenue, expenditures, and balances.

Funding Cycle - Range of time during which proposals are accepted, reviewed, and funds are awarded.

Gift - Money, equipment or property given to the University with few or no conditions specified.

Grant - A financial award to the University in the name of a principal investigator to conduct research or other program as specified in an approved proposal.

Indirect Cost Agreement - The agreement between the University and the federal government that specifies the University’s Indirect Cost Rate.

Indirect Cost Pools - The categories into which indirect costs are grouped. They include: depreciation and use allowances of equipment and building, operation and maintenance expenses, general administration, departmental administrative expenses,
sponsored projects administrative expenses, library expenses, and student services. See A-21 for detailed descriptions of these pools.

**Indirect Cost Rate** - The rate, expressed as a percentage of a base amount (see MTDC), and established by negotiation with the federal cognizant agency on the basis of the institution’s projected costs for the year and distributed as prescribed in OMB Circular A-21.

**Indirect Costs** - Costs that are incurred for common or joint objectives and which cannot be readily identified and specifically identified with a particular sponsored project or institutional activity.

**Institutional Activities** - These are activities and functions of an institution other than sponsored projects. Activities include instruction, university research, as well as operation of residence and dining halls, clinics, student unions, bookstores, faculty and student housing, and other, similar auxiliary expenses.

**Institutional Cost Sharing** - National Science Foundation (NSF) permits cost sharing to be on an aggregate basis, based on the average level of cost sharing for all projects funded by the agency. The cost share requirement is 1% or greater per fiscal year disbursements.

**Instruction** - Teaching and training activities of an institution whether offered for credit towards a degree or on a non-credit basis, and whether they are offered through regular academic departments or separate divisions such as Summer Sessions or Extension. Also considered part of this major function are departmental research, and where agreed to, university research.

**Lien** - A synonym for encumbrance (see the definition for encumbrance).

**Like circumstances** - Costs are treated consistently the same as either direct or indirect, except in extraordinary circumstances.

**Matching** - The sponsor requires the University, as a condition of the award, to “match” the sponsor’s support in some arbitrary portion, a fixed amount or resources from non-UC sources pledged in partial support of a project.
MTDC - (Modified Total Direct Costs) Refers to that amount in a budget against which the Indirect Cost Rate is assessed. MDTC consists of: all salaries and wages; fringe benefits; materials and supplies; services; travel; and subgrants and subcontracts up to the first $25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract). Equipment, capital expenditures, tuition remission, rental costs, scholarships, and fellowships, as well as the portion of each subgrant and subcontract in excess of $25,000 shall be excluded from modified total direct costs.

**Object Code** - A four digit code that is used for the classification of expenditures. It provides a more detailed breakdown than the sub. For example: object code 8000 designates Supplies and Expense, object code 2000 designates Travel In-State. Section II-C-2 and II-C-3 describe some commonly used object codes.

**OMB** - Federal Office of Management and Budget is responsible for issuing regulations pertaining to federal funding.

**OMB A-21** - Regulatory circular issued by the Office of Management and Budget specifying costing principles for educational institutions.

**Organized Research** - All research and development activities of an institution that are separately budgeted and accounted for including both sponsored and university research.

**Overdrafts** - (deficits) - Expenditures that exceed the amount of appropriation.

**Overhead Rate** - Commonly used as a synonym for Indirect Cost Rate.

**Principal Investigator** - (PI) - The individual responsible for all aspects of the research or other activity described in a proposal for an award.

**Prior approval** - The need to obtain advance approval from the agency before taking a particular action on a Sponsored Agreement.

**Proposal** - A complete submittal that contains all information necessary to describe project plans, staff capabilities and funds requested. Formal proposals are officially approved and submitted by an organization in the name of a principal investigator.
**Reasonable Costs** - The nature of goods or services acquired or applied and the amount involved reflect action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Is the cost generally recognized as ordinary and necessary for the operation of the institution or the performance of the grant or contract? Was the cost incurred based on generally accepted sound business practices?

**Recharge** - The assessment and collection by one university unit for products or services furnished by another university unit.

**Research** - Comprising the entire research function of the University. See also, Organized Research, University Research, and Sponsored Research.

**Salaries and Wages** - payments made to employees of the institution for work performed. When charged to a sponsored project, they become a subset of direct costs, which along with other components form the base upon which indirect costs will be allocated.

**Section J** - (Circular OMB A-21) - This section covers the general provisions for determining allowability and treatment of cost items.

**Sponsored Agreement** - Any grant, contract or other agreement between the institution and outside agency or organization.

**Sponsored Projects** - Sponsored Project are clearly defined projects for research, instruction or public service which are supported by extramural funds. Sponsored Projects exclude gifts.

**Sponsored Research** - All research and development activities sponsored by a Federal and non-Federal agencies and organizations.

**Sub** - (Sub-account) - A one digit code classifying type of expense. For example: sub 2 designates salaries or general assistance, sub 6 designates employee benefits.

**TC (Total Costs)** - Under TC, the rate is applied to the total amount awarded. (Ex: $100,000 is awarded, overhead rate is 46%, the overhead budget would be $46,000.)
This is opposed to the application of the overhead rate under MTDC, where the rate is applied to the direct costs charged to the award.

**TDC (Total Direct Costs)** - Applies to the application of the overhead rate to **all** direct costs. No direct costs are excluded from overhead.

**Unallowable Costs** - Those costs which may not be allocated to sponsored projects, either as direct or indirect costs, unless required by the sponsored project **and** specifically approved in writing by the sponsored agency.

**University Participation** - This refers to a specific, measurable contribution by the University toward a project separate from the cost shared contribution. It is University funds and/or resources specifically set aside for this project; funds that would not normally be available to the principal investigator.

**University Research** - All research and development activities that are separately budgeted and accounted for by the institution under an internal application of institutional funds.

**Unrestricted Funds** - The external agency has placed few or no conditions on how funds can be expended.
Appendix B
Important World Wide Web Addresses

Accounting & Financial Services
   PAR Information
   Cost Sharing Information
   http://ucsbuxa.ucsb.edu/Accounting/index.html

CAS Information
   CAS Training Materials
   Departmental Costing Guidelines
   Frequently Asked Questions
   http://ucsbuxa.ucsb.edu/Accounting/cas/cas.html

Object Code List
   http://ucsbuxa.ucsb.edu/Accounting/Disbursement.html

OMB Circular A-110
   http://research.ucsb.edu/pfp.html

OMB Circular A-21
   http://research.ucsb.edu/pfp.html

   http://research.ucsb.edu/spo/sprcb3.html

Travel Policy
   http://ucsbuxa.ucsb.edu/Accounting/Travel.html

CAS E-mail Address
   Cas.Questions@Accounting.ucsb.edu