

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, whether for federal or non-federal funding, is paramount. The campus, therefore, has one set of practices, policies, and procedures for all funds.

A. The Uniform Guidance and 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 issued final guidance entitled “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (the Uniform Guidance or UG), effective 12/26/14 for all new Federal awards and new funding for existing awards (incremental funding). The final guidance supersedes and streamlines requirements from eight OMB Circulars, including A-21, A-110, and A-133. In general, the UG sets forth the principles for determining whether costs are direct, indirect, allowable, or unallowable as they pertain to federally sponsored projects. The UG also specifies acceptable cost allocation methods.

The UG requires that colleges and universities receiving an aggregate of \$50 million or more per fiscal year in Federal awards implement four specific standards outlined by the Cost Accounting Standards Board (CASB). 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.
- *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 the UG. In addition, UCSB is required to file a Cost Accounting Standards (CAS) Disclosure Statement (the DS-2) 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 whenever there is a change in costing practices.

C. Indirect Cost Calculations for Federally Funded Projects

The UG establishes the principles for determining costs applicable to all federal awards and also defines allowable (direct and indirect) costs and unallowable costs. Moreover, the UG specifies the indirect cost categories (pools) that should be established for accumulating and allocating allowable institutional costs to research projects. Allowable indirect (Facilities and Administration or F&A) costs are 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
- sponsored projects administrative expenses
- student services administrative expenses
- library expenses

These indirect (F&A) 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" (MTDC¹) for each function to which costs are to be allocated. For some pools, other methods of cost allocation may be used, depending on what the UG 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.²

D. Purpose of Departmental Guidelines

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

¹ MTDC, or modified total direct costs, are the total direct costs against which indirect costs are applied. Certain direct costs items, such as equipment, tuition remission, fellowships, and participant support costs are excluded from indirect costs.

² 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 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 must be completed
- defining appropriate use of university accounts for specific institutional activities (e.g., instruction, research)
- accounting for transfers of expense (TOE)

II. DEPARTMENT 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 (F&A), 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 (F&A) 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 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).

Administrative & Clerical Salaries

Although general departmental support should normally be considered an indirect activity, the UG provides that direct charging of these costs may be appropriate if all of the following conditions are met:

1. Administrative/clerical services are integral to the project/activity (an administrative or clerical

service is integral to the project if it contributes directly to the success of the project and supports a programmatic objective);

2. Individuals involved can be specifically identified within the project/activity;
3. 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.

(Ref: the UG Subpart E 200.413(c)).

3. Indirect Costs

Although not an exhaustive list, the following activities represent routine administrative and clerical activities that are considered indirect (F&A) 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

The UG identifies 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 charged to 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 activities that are unallowable. The UG, Subpart E, Cost Principles – General Provisions for Selected Items of Cost discusses 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 and publishing or preparing materials intended to influence 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 publication, student clubs, other student activity, alumni activity, or similar service, unless specifically provided for in the Federal award. Alcoholic beverages are never allowable charges on Federal awards.

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 are referred to as a function code and identify the approved institutional activity that may be charged to that account. (See the function code table below.) For example, 40XXXX is an account for instructional activity and 44XXXX is an account for research.

Departments must 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 his or her office. 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.

Function Code Table		
<i>UCSB Activity/Function</i>	<i>Account Number/Function Code</i>	<i>Description</i>
Instruction	40XXXX	<i>Instruction</i> 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 Instruction activity may include departmental administrative support activities and other indirect costs.
Organized activities/academic support	43XXXX	<i>Organized Activities/ Academic Support</i> includes expenditures for activities operating in support of academic departments (e.g., academic department shops and computing facilities). Only direct activity costs may be charged to 43XXXX accounts.
Research	44XXXX through 59XXXX	<i>Research</i> 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 <i>direct activity charges may be made to federally sponsored grants and contracts</i> . Indirect activities may be charged to non-federal Research account/funds, when allowable (e.g., non-federal discretionary gifts).
Library	60XXXX	<i>Library</i> includes all expenses that have been incurred for the operation of the Library.
University Extension	61XXXX	<i>University Extension</i> includes all expenses incurred in the operation of University Extension general, professional, and other programs.
Maintenance and Operation of Physical Plant	64XXXX	<i>Maintenance and Operation of Physical Plant</i> 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.
Institutional Support	66XXXX 72XXXX	<i>Institutional Support</i> includes support services that benefit common or joint departmental activities such as accounting and other administrative services.
Student Services	68XXXX	<i>Student Services</i> includes expenses incurred for the administration of student affairs and for services to students such as the registrar, admissions, dean of students, and commencement.
Auxiliary Services	76XXXX	<i>Auxiliary Services</i> includes self-supporting campus community activities (not departmental activities) such as the bookstore, and housing and residential services.
Student Financial Aid	78XXXX	<i>Student Financial Aid</i> includes expenditures for scholarships, fellowships, and stipends for students, trainees, and fellows. These costs are excluded from indirect cost calculations.

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.A.).

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.

Because costs increase over time, budgets should 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 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 Office of Research [Estimating Project Costs](#) guidance 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.

1. Expenses

Adherence to the federal cost principles and procedures outlined in the UG 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 that 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-F Cost Transfers.)

2. Payroll Expenses

• Faculty & Professional Research Salaries and Wages

Salaries and wages of faculty and other academic personnel paid by the University should normally be directly charged to an instruction or research account. Direct charges to a federally 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 federal 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.

Efforts 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

See Section II.A.2., above.

3. Non-Payroll Expenses

The cost items discussed in this section are some of the more common departmental costs at UCSB. The review of the cost items listed in this section is provided as general guidance only.

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.

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.

- **Computing Devices (No object code)**

Machines used 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 are all considered to be computing devices.

Computing devices costing less than \$5,000 that are essential and allocable for the performance of the federal award are allowable as direct costs, even if not solely dedicated to such award performance. Note that if a computing device benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost of the device must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may generally be allocated or transferred to benefitted projects on any reasonable, documented basis.

- **Telephones (Object Codes 4100; 4110-4120; 4130-4199)**

Basic telephone line and equipment charges and local telephone services are normally treated as indirect costs. This also includes all cellular telephone charges.

- **Long distance calls (Object Code 4125) and fax charges (Object Code 4101)**

These costs must be charged to a sponsored project or other benefiting activity (e.g., Instruction, Departmental Administration, etc.).

- **Postage and mail (Object Codes 4400-4440; 4475-4490)**

Ordinary and routine postage costs and mail stop charges are treated as indirect costs.

- **Fed-Ex (Object Code 4450), UPS (Object Code 4460), and other courier charges (Object Code 4470)**

Shipping charges for which there is readily available backup tracking documentation showing specifically the project being benefitted and other vital information specific to the mailing can be directly charged to the award.

- **Photocopying and Reproduction (Object Codes 6050, 8015)**

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 Codes 5200, 5210, 5220, 5230, 5250, 5260)** Utility costs are normally treated as indirect costs; however, extraordinary utility consumption, if directly related to a specific award, may

be treated as direct costs. If utility costs are associated with a lease agreement, they should be charged to the benefiting activity.

- **Repairs & Maintenance (Object Codes 7100, 7150)**

Core service repairs and maintenance for state-supported space in UCSB buildings (non-leased) must be treated as indirect costs. Special-needs 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 Codes 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 Codes 8030, 8040, 8050, 8060)**

Lab supplies must be charged to the benefiting activity (e.g., Research or Instruction).

- **Equipment (Object Codes 9000 and 9900)**

Current UC policy defines equipment as “an article of non-expendable tangible personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.” When the University acquires equipment using federal funds, it must ensure 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. An individual membership to a technical or professional group may be allowed as a direct charge to a contract or grant if one of the following can be demonstrated:

1. The membership creates a cost-savings to attend a conference at which research results specific to the project will be presented or for which membership is mandatory in order to present research results specific to the project.
2. The sole purpose of the membership is to purchase a periodical at a reduced rate, the periodical is not available through the institution’s library services, and the periodical is necessary for the sponsored project.

The budget narrative should clearly indicate how the membership costs meet one of the above requirements.

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 the 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—In-State and Out-of State (Object Codes 2000, 2010, 2012, 2020, 2900, 2901, 2902, 2910, 2911, and 2912)**

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.

4. 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, applicable laws and regulations (including University regulations) are unallowable, except when incurred as a result of compliance with specific provisions of the sponsored agreement or with prior written approval of the sponsor.

- **Donations and Contributions (Object Code 7710)**

Donations or contributions—including cash, property, and services—made by the institution, regardless of the recipient, are unallowable.

- **Unallowable Memberships (Object Code 7720)**

Costs of membership in business, technical, and professional organizations and costs of subscriptions to business, professional, and technical periodicals are allowable. Costs of membership in any civic or community organization, however, are allowable only with prior approval by the Federal awarding agency. Costs of membership in any country club or social or dining club or organization are unallowable, as are costs of membership in organizations whose primary purpose is lobbying.

- **Unallowable Advertising (Object Code 7730)**

The only allowable advertising costs are those which are solely for: (1) The recruitment of personnel required for performance of the award; (2) The procurement of goods and services for the performance of the award; (3) The disposal of scrap or surplus materials acquired in the performance of the award except when the awarding agency reimburses for disposal costs at a predetermined amount; or (4) Program outreach and other specific purposes necessary to meet the requirements of the award.

Unallowable advertising and public relations costs include the following: (1) Costs of meetings, conventions, convocations, or other events related to other activities of the entity besides the program for which sponsor funds were received; (2) Costs of promotional items and memorabilia; (3) Costs of advertising and public relations designed solely to promote the award recipient; and (4) All advertising and public relations costs other than costs specifically required by the Federal award, costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of the Federal award, or costs of conducting general liaison with news media and government public relations officers to keep the public informed on matters of public concern.

- **Social Activities & Unallowable Entertainment (Object Code 7750)**

Costs of entertainment, including amusement, diversion and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency. Costs of alcoholic beverages are unallowable.

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 criminal, civil or administrative proceedings are generally unallowable charges to sponsored programs unless: (1) the proceeding was commenced by a state, local or foreign government and the costs were a result of a specific term or condition of a sponsored agreement or specific written direction of an authorized official of the sponsoring agency; or (2) the proceeding was commenced by the Federal government and is resolved by a consent or compromise agreement, which specifically allows such costs to be charged to a Federal award. In addition, such costs may be allowable if: 1) The costs are reasonable and necessary in relation to the administration of the award

and activities required to deal with the proceeding and the underlying cause of action; 2) Payment of the reasonable, necessary, allocable and otherwise allowable costs incurred is not prohibited by any other provision(s) of the award; 3) The costs are not recovered from the Federal Government or a third party, either directly as a result of the proceeding or otherwise; and, 4) An authorized Federal official determines the percentage of costs allowed.

Costs of legal, accounting, and consultant services, and related costs, incurred in connection with patent infringement litigation, are unallowable unless otherwise provided for in the award.

D. 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.

E. 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 and criteria are met. The process of moving this cost to its new A/F/S/O is called a **Cost Transfer**.

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 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, the late cost transfer escalation procedure must be followed. This should be used strictly for rare and unusual circumstances and requires a full explanation, including a well-documented account of all the events leading to the tardy adjustment (for extramural contracts and grants, this explanation must be signed by the principal investigator, department head, extramural funds manager, controller and vice chancellor for research). For more information and required forms, see the [Late Cost Transfer Escalation Procedure for Contracts and Grants](#).

General Ledger Deadlines for Cost Transfers

All cost transfers need to be prepared within 120 days after the original charge shows in the general ledger.

F. 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 include 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. Existing rates must be approved on an annual basis.

G. Effort Reporting

Regulations concerning the use of federal funds require that universities substantiate direct salary costs charged to sponsored projects and committed cost sharing effort devoted to sponsored projects.

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.

The University fulfills the effort reporting requirement through the use of the Effort Reporting System (ERS). ERS is a web-based tool that calculates the distribution of effort for all employees paid from federal and federal flow-through funds, captures certification electronically, and provides a mechanism for processing corrections and re-certifying reports.

Please see <http://www.bfs.ucsb.edu/extramural-funds/effort-reporting> for more information and training materials.

1. ERS

There are three ERS reporting periods: June-September, October-January, February-May. Effort Reports are due Jan. 28, May 31, and Sep. 28 respectively for each of the periods.

Principal investigators and other personnel in professorial, professional research, and management titles who are paid on or have commitments to work on federal or federal flow-through funds are required to certify their own effort since they are in the best position to understand how they are spending their time in support of the various activities in which they are participating. Principal Investigators should also certify effort for employees over whom they have primary oversight, given that they have firsthand knowledge of the work performed.

It is recognized that in an academic setting, teaching, research, service, 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; otherwise, 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.

H. 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, identified in the accounting system, and supported by the Effort Reporting System.

Appendix A—Costing Guidelines Glossary³

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 the Uniform Guidance 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.

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 - A legal instrument used to purchase property or services needed to carry out the project or program under a Federal award.

³ Sources of definitions include the Uniform Guidance; UCLA Research Administration Glossary; UCSB Accounting Office; UCSD Cost Accounting Standards Implementation; and UCSF Academic Department Training for Charging Practices.

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 - See "Gift."

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."

Federal Flow Through Funds - Federal funds awarded to the University via one or more non-federal sponsors.

Fund - 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.

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 the UG.

Indirect Costs – Costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Institutional Activities - Activities and functions of an institution other than sponsored projects, including instruction, university research, the operation of residence and dining halls, clinics, student unions, bookstores, faculty and student housing, and other, similar auxiliary expenses.

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 sometimes university research.

Lien – See “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 with a fixed amount of cash or with resources from non-UC sources pledged in partial support of a project.

MTDC (Modified Total Direct Costs) - All direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and subawards and subcontracts up to the first \$25,000 of each subaward or subcontract (regardless of the period of performance of the subawards and subcontracts under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each

subaward and subcontract in excess of \$25,000.

Object Code - A four digit code that is used for the classification of expenditures. 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.

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 - See "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.

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

Sponsored Projects - Sponsored Projects 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 indirect cost rate is applied to the total amount awarded. (Ex: \$100,000 is awarded, indirect cost rate is 53.5%, the overhead budget would be \$53,500.) This is opposed to the application of the indirect cost rate under MTDC, where the rate is applied only to the direct costs.

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.

Uniform Guidance, 2 CFR 200, entitled Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (UG) - This guidance, effective December 26, 2014, incorporates and streamlines eight previous OMB Circulars (A-21, A-87, A-110, A-122, A-89, A-102 and A-133 as well as A-50).

University Participation (UC Cash) - 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—Uniform Guidance Quick Guide

APPLICABILITY

The Uniform Guidance (UG) applies to all federal awards effective on or after December 26, 2014. Most* federal agencies are incorporating the UG at the time additional funding is received and/or the terms of the award are modified, consistent with the below:

- All **new** awards effective on or after December 26, 2014.
- All **competitive renewals** effective on or after December 26, 2014.
- All **non-competitive continuations** effective on or after December 26, 2014
- All **funding modifications (e.g., revisions, supplements)** effective on or after December 26, 2014.

*Please refer to the terms and conditions of the federal award to verify applicability of the UG.

<p>CHARGING ADMINISTRATIVE/CLERICAL SALARY COSTS</p> <p>Applicable Uniform Guidance (UG) Section 200.413</p>	<p>Administrative and clerical salaries (in certain circumstances) AND programmatic salary costs can be included on competitive proposal budgets.</p> <p>ALLOWABLE?</p> <p><u>YES</u>, but only if:</p> <ol style="list-style-type: none"> 1. Administrative or clerical services are integral (essential, vital, or fundamental) 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. <p>ACTION:</p> <p>The proposal’s budget justification should explain how anticipated direct charging of administrative/clerical costs are justified using the new criteria. Please be detailed in describing how the position is integral (essential, vital, or fundamental) to the project.</p> <p>PRIOR APPROVAL NEEDED?</p> <p>YES, unless the agency has waived this requirement (e.g., NIH has waived this requirement). If the justification and costs were not included in the proposal and approved by the sponsor, prior approval from the sponsor will be needed prior to incurring any such costs.</p>
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<p>COMPUTING DEVICES (UNDER \$5,000 UNIT COST)</p> <p>Applicable UG Sections: 200.33 200.48 200.89 200.439 200.453(c)</p>	<p>Computing devices can be included on competitive proposal budgets.</p> <p>ALLOWABLE?</p> <p><u>YES</u>, but only if:</p> <ol style="list-style-type: none"> 1. The computing device costs less than \$5,000/unit (“computing device” includes accessories or peripherals for printing, transmitting, receiving, or storing electronic information). 2. The computing device is essential to the project because it is necessary to store, analyze, process, and publish data and other information electronically. 3. The project does not have reasonable access to other devices or equipment that can achieve the same purpose. 4. The PI and department maintain documentation that describes how the proposed computing device meets these requirements. <p>ACTION:</p> <p>You may include computing devices in a project budget if the above circumstances are present for the anticipated project. The budget justification should explain why the purchase is appropriate in light of the standards above. Please be detailed in describing how the computing device purchase is essential to the project.</p> <p>PRIOR APPROVAL NEEDED?</p> <p><u>NO.</u></p> <p>NOTE: Items costing more than \$5,000 per unit are considered equipment and follow federal equipment rules on direct charge allowability.</p>
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<p>PARTICIPANT SUPPORT COSTS</p> <p>Applicable UG Sections: 200.75 200.456</p>	<p>Participant support costs (stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees – but not employees – in connection with conferences or training projects) can be included on competitive proposal budgets that include an education or outreach component, the costs are separately budgeted and the agency approves the cost.</p> <p>ALLOWABLE?</p> <p><u>YES</u>, but only if:</p> <ol style="list-style-type: none"> 1. They are programmatically justified. 2. The costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and 3. The costs are specifically exempt from F&A. <p>PRIOR APPROVAL NEEDED?</p> <p><u>YES, if the participant support costs were not separately listed in the budget and justification.</u></p>
<p>VISA COSTS</p> <p>Applicable UG Section: 200.463(d)</p>	<p>Short-term, travel visa costs can be included on competitive proposal budgets.</p> <p>ALLOWABLE?</p> <p><u>YES</u>, but only if:</p> <ol style="list-style-type: none"> 1. The visa-holder will be working for a specified period of time and for a purpose that can be clearly identified as directly connected to the work being performed on the Federal award to which the visa costs are charged; 2. Obtaining the visa is critical and necessary for the conduct of the project; 3. The visa costs meet the definition of a direct cost under any additional applicable cost principles, e.g. specific principles imposed by the funding agency; and 4. The visa costs are consistent with the University’s cost accounting practices and policies. <p>PRIOR APPROVAL NEEDED?</p> <p><u>NO.</u></p> <p>NOTE: H-1B and J-1 visa costs are allowable as direct charges to Federal awards if the above criteria are met.</p>

<p>F&A ON SUBAWARDS</p> <p>Applicable UG Section: 200.331</p>	<p>Subrecipient’s negotiated F&A rate must be used in competitive proposals unless the sponsor has a published F&A cap. If the subrecipient does not have a negotiated rate, a 10% de minimis F&A rate must be used by the subrecipient.</p> <p>The base type to be used by the subrecipient, when using the de minimus 10% rate, is MTDC.</p> <p>ACTION</p> <p>Upon receipt of the subrecipient’s budget for inclusion in the proposal, ensure that the F&A rate used is the subrecipient’s negotiated rate or if there is no negotiated rate, no less than 10%. If the sponsor has a cap, that cap must be used by UCSB and the subrecipient.</p> <p>PIs are not allowed to negotiate or agree to lower rates with their subrecipients.</p> <p>NOTE: There is no change to UCSB’s recovery of its own F&A – this remains limited to receiving F&A on the first 25k of each subaward.</p>
<p>FIXED PRICE/RATE SUBAWARDS</p> <p>Applicable UG Section: 200.332</p>	<p>Agency prior approval is required to enter into fixed price/rate subawards, which may not exceed \$150K.</p> <p>ALLOWABLE? <u>YES</u>, but only if:</p> <ol style="list-style-type: none"> 1. The total value of each fixed price/rate subaward does not exceed \$150k. 2. An explicit and separate justification statement is added to proposals contemplating a fixed price/rate subaward. <p>PRIOR APPROVAL NEEDED?</p> <p>YES, unless the agency has waived this requirement (e.g., NIH has waived this requirement).</p>