



Hektoen Institute

Cost Principles Policy

Date Approved: 5/15/2007

I. Purpose.

The purpose of this policy is to outline the principles used in determining whether the costs incurred in the post-award period are allowable or unallowable as either direct costs or indirect Facilities and Administration (“F&A”) costs of a sponsored project. This policy has been developed to meet the compliance standards set forth in the OMB Circular A-122, Cost Principles for Non-Profit Organizations. Consistent treatment of costs, both direct and indirect, is a basic accounting principle and is specifically required by OMB Circular A-122. Consistent cost allocation means costs incurred for the same purpose, in like circumstances, are uniformly treated as either direct or indirect F&A costs.

All Hektoen personnel who have management responsibility for sponsored projects or who have responsibility for purchasing supplies and services for sponsored projects must understand these cost principles and their application to the Hektoen financial system. Correct financial coding is necessary to ensure that costs are properly allocated, thus ensuring consistent allocations among sponsored projects and providing consistent financial data for these sponsored projects.

II. Definitions.

Allocable: A cost is allocable to a particular sponsored project if it benefits the sponsored project or, when the cost benefits more than one sponsored project, an appropriate share can be identified with each individual project.

Allowable: A cost is allowable if it meets all of the criteria listed below:

- *Reasonable:* The cost is reasonable if, in its nature and amount, it does not exceed what would be incurred by a prudent person under the same circumstances. In determining whether a particular cost is reasonable, consideration shall be given to:
 - Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the project.
 - The restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, federal and state laws and regulations, and terms and conditions of the award.
 - Whether the individuals concerned acted with prudence, considering their responsibilities to the organization, employees, clients, the public at large, and the federal government.
 - Significant deviations from the established practices of the organization that may unjustifiably increase the cost.

- *Necessary:* The cost is necessary if it is required to fulfill the terms of the sponsored project.
- *Consistently treated:* Expenses for the same purpose are treated and classified in the same manner in like circumstances.
- *Not prohibited:* The expense is not specifically prohibited by OMB Circular A-122, the terms of the sponsored project, or any other regulation.
- *Adequately documented:* The cost must be adequately documented.

Direct Cost: A costs that can be identified specifically with a particular sponsored project or account relatively easily with a high degree of accuracy.

Indirect F&A Costs: Indirect F&A costs are those costs incurred for a common or joint objective and therefore cannot readily be identified with one particular sponsored project, but which provide an overall benefit to more than one sponsored project.

- “Facilities” means the depreciation and use allowances on buildings, interest on debt associated with certain buildings, equipment and capital improvements, and operation and maintenance expenses.
- “Administration” means the general administration and general expenses, such as accounting, personnel, library expenses and any other types of expenditures not specifically under one of the subcategories of Facilities.

Sponsored Project: A project funded by a grant, contract, cooperative agreement, or subcontract from an extramural funding source.

Unallowable Costs: A cost that cannot be charged to a sponsored project as a direct cost and cannot be included as a cost to be recovered through the indirect F&A rate.

III. Direct Costs.

Identification with a sponsored project, rather than the type of goods or services, is a determining factor in distinguishing direct costs from indirect F&A costs. Direct costs must also have the necessary characteristics of an allowable cost, as defined above. In addition, the terms of the sponsored project or certain administrative agency regulations may prohibit certain charges regardless of their classification as direct costs. Therefore, before determining that an expenditure is a direct cost, a review of the relevant project and the sponsoring agency’s regulations should be conducted. For reference, below is a brief listing of costs that may generally be considered direct costs.

- **Advertising:** The costs of advertising media, including magazines, newspapers, radio and television programs, direct mail, and exhibits, are considered direct costs if there are dedicated to the promotion of the particular sponsored project or for procurement of goods and services directly related to a particular sponsored project.
- **Compensation:** Salaries and wages for faculty and scientific, technical, and professional individuals working specifically on the sponsored project.
- **Conference Costs:** Must be specifically authorized as part of the project.
- **Equipment:** Defined as an item with a unit cost that equals or exceeds the lesser of the capitalization level established for financial statement purposes by Hektoen or \$5,000 and

that has a useful life of more than one year. Special purpose scientific/technical equipment is normally a direct cost. General purpose equipment such as computers, printers, fax machines, furniture, typewriters, filing cabinets, etc. are not normally appropriate as direct costs, except when specifically related to the scientific/technical needs of the project. All equipment purchases must be pre-approved by principal investigator and may require specific agency approval. All direct charges for equipment should be specified in the proposal budget. If the awarding agency approves the item in the budget, this usually constitutes agency authorization to charge the cost of the equipment to the project.

- **Equipment Maintenance and Repair Costs:** Costs incurred for necessary maintenance, repair, or upkeep of equipment that neither add to the permanent value of the equipment nor appreciably prolong its life, but keep it in an efficient operating condition. Appropriate as a direct cost if the cost is for equipment directly charged to a sponsored project.
- **Fringe Benefits:** Standard benefits associated with compensation as established by written Hektoen policies and procedures, such as health insurance, pension plan costs, worker's compensation insurance, vacation leave, sick leave, etc.
- **Housing and Living Expenses:** May be incurred only on some conference/training/fellowship projects where such costs are specifically authorized.
- **Human Subjects Payments/Incentives:** May be incurred if project specifies human subjects activity and payments incentives. Costs may not be incurred prior to IRB human subjects protocol approval.
- **Publication and Printing:** Appropriate as a direct cost if identifiable with a particular project and if awarding agency has given prior approval.
- **Professional and Consulting Fees:** Costs of professional and consultant services rendered by individuals who are not Hektoen officers or employees when reasonable in relation to services rendered.
- **Rental/Lease Space Costs:** To the extent rates are reasonable in light of rental costs of comparable property, the type, condition, value of property leased, and available alternatives. Should consult grants management officer before entering leases that would result in direct charge to grant.
- **Speaker Fees:** Payment for services rendered.
- **Supplies:** Medical/scientific/technical/laboratory materials such as chemicals, glassware, gases and liquids, scientific software, pharmaceuticals, etc. are direct costs. Unless specifically authorized, office supplies are not typically appropriate as a direct cost.
- **Transportation Costs:** Freight, express, cartage, postage and other transportation services relating to goods purchased. Costs would normally be included as part of the purchase price of the goods/equipment and would not normally be charged separately.
- **Travel Costs:** Transportation, lodging, food and related items incurred when they provide a direct benefit to the project in accordance with Hektoen's travel policy.

IV. Indirect Facilities & Administration Costs.

The following are generally treated as indirect F&A costs and not directly charged to a sponsored project.

- **Accounting/Audit Costs:** Typically an indirect F&A cost, unless audit's scope is limited to a specific NIH grant-supported project or program.

- **Administrative/Managerial/Clerical Salaries/Wages/Benefits:** Includes staff, such as secretaries, accountants, directors, and administrators.
- **Alterations and Renovations:** Typically an indirect F&A cost; only appropriate as a direct cost when required to perform the sponsored project and authorized by the sponsoring agency.
- **Computer Services or Use Fees:** Routine, standard computer services and networking costs are normally indirect F&A costs. Specialized computer search or database services may be appropriate as a direct cost, if the service is directly related to the project's needs and the charges are based on established rates.
- **Construction Costs/Architectural Fees:** Typically an indirect F&A cost, but may be appropriate as a direct cost only when specifically authorized by the sponsoring agency.
- **Facilities Management:** Building maintenance such as janitorial services, repairs, painting, and utility charges.
- **General Purpose Equipment:** Computers, fax machines, typewriters, office furniture, file cabinets, etc.
- **Interest:** Interest on debt associated with certain buildings, equipment and capital improvements.
- **Legal Costs:** Legal costs associated with Hektoen's operation are allowable as indirect F&A costs. Legal costs associated with defense and prosecution of criminal or civil proceedings, appeals or patent infringement, however, are not allowable.
- **Library Costs/Collections/Acquisitions:** General library support may be included as an indirect F&A cost. Allowable as a direct cost only when specifically required for the conduct of the project, identifiable as an integral part of the grant-supported activity, and authorized by the funding agency.
- **Membership Dues:** For organizational membership in business, professional, or technical organizations or societies.
- **Office Supplies:** Paper, pencils, pens, binders, folders and similar supplies.
- **Postage:** Postage/FedEx/courier, etc., including all costs incurred for correspondence, reports, manuscripts.
- **Telephone:** Includes equipment use charges or purchases, local and long distance telephone service charges, fax lines, fax machines and pagers or cellular telephone purchases, fees or services.

V. Exceptional Circumstances.

In exceptional circumstances, items typically considered indirect F&A costs may be charged as direct costs to a sponsored project. The costs should be examined and justified in the proposal budget for the sponsored project.

- **Administrative/Managerial/Clerical Salaries/Wages/Benefits:** These costs may be appropriately charged to a sponsored project when the nature or the extensive amount of the work can be specifically identified with that sponsored project. Such costs may be appropriate for the following: large complex projects that require assembling and managing teams of investigators from multiple institutions; projects that involve extensive data accumulation, analysis, entry, surveying, tabulating, and cataloging; and projects whose principal focus is the production of manuals, large reports, or monographs.

- **General Equipment:** Certain general business equipment such as computers, printers, and other business equipment that the principal investigator certifies is necessary for the unique scientific/technical tasks of the specific sponsored project.
- **Membership Dues:** Appropriate as a direct cost on an exception basis, such as if the membership is a requirement of the sponsored project.
- **Office Supplies:** Exceptional costs for office supplies may be charged as a direct cost to a sponsored project if they can easily be identified with that sponsored project with a high degree of certainty, such as paper and envelopes used as a part of a survey of the participants of the sponsored project. In contrast, paper used for general correspondence or publications regarding the sponsored project should be considered indirect F&A costs.
- **Postage:** Exceptional costs for postage, overnight shipping, or courier services directly related to the scientific needs of the sponsored project may be considered direct costs. Examples of such costs include shipping of samples to another laboratory or collaborator, postage costs of a survey to the participants of the sponsored project, or shipping costs for the return of specialized equipment directly allocated to a sponsored project.
- **Telephone:** Telephone costs are only exceptional costs when a sponsored project requires extensive telephone usage. Further, only the costs for a dedicated telephone line would be appropriately considered a direct cost. Pagers or cellular phones may be appropriate for an individual who is required by the nature of the sponsored project to travel from location to location to gather data and that individual must maintain continual contact as part of the specific needs of the project. If the individual has multiple duties and the cellular phone or the pager is not an integral part of the sponsored project or the individual has responsibility for multiple sponsored projects, then the cellular telephone and/or the pager are considered an indirect F&A cost and not an exceptional direct cost.

VI. Unallowable Costs.

The following are commonly incurred costs that cannot be charged as a direct costs or recovered as an indirect F&A cost.

- **Advertising, Public Relations and Promotional Costs:** Institutional promotion of Hektoen is unallowable. Some types of advertising, such as recruitment of study patients, may be allowable.
- **Alcoholic beverages**
- **Bad debts**
- **Charitable contributions, donations or gifts (cash, services or property)**
- **Contingency provisions**
- **Entertainment costs**
- **Fines and penalties**
- **Food Costs:** For subject incentives, may be appropriate as a direct cost when related to the specific needs of the project. Usually authorized as part of the project. Food costs for routine operations or staff meals are not allowable, except in the course of travel or as part of a bona fide meeting related to the specific terms of the project.
- **Fund raising and investment management costs**
- **First class or other non-coach class travel**
- **Honoraria (i.e., a payment without service):** Speaker's fees, or other payments involving a service, are allowable.
- **Housing and personal living expenses of Hektoen officers**

- **Lobbying**
- **Losses (overruns) on another sponsored projects**
- **Marketing and selling of goods**
- **Personal use of goods or services**

Costs directly associated with the incurrence of unallowable costs are also classified as unallowable costs. For example, travel expenses incurred while on a fund raising trip are unallowable.

VII. Questions.

Questions regarding this policy should be directed to dennis.ronowski@hektoen.org

References: OMB Circular A-122
NIH Grants Policy Statement, Part II, Subpart A, Cost Considerations

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