



RESEARCH and SPONSORED PROGRAMS

COST POLICIES and GUIDELINES

I. PURPOSE

The purpose of this policy is to ensure compliance with the Code of Federal Regulations (CFR), Title 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Pepperdine University is responsible for the efficient and effective administration of the Federal award through the application of sound management practices and assumes responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award. All costs, direct, indirect, and allowable costs, proposed or incurred on a sponsored project must comply with sponsor terms and conditions; applicable federal, state, and local regulations; and Pepperdine University policies and procedures.

II. APPLICABILITY

This policy applies to all Principal Investigators (PIs), administrators, faculty, and staff at Pepperdine University who are involved in the performance, management, and administration of sponsored awards. The PI is ultimately responsible for ensuring appropriate fiscal management and compliance with sponsor terms and conditions.

III. FACTORS of ALLOWABLE COSTS

Costs must meet the following general criteria in order to be allowable under federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.

- (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also §200.306 Cost sharing or matching paragraph (b).
- (g) Be adequately documented. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

Reasonable

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Allocable

- (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
 - (1) Is incurred specifically for the Federal award;
 - (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
 - (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.
- (b) All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
- (c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations,

or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

(d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost 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, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also §§200.310 Insurance coverage through 200.316 Property trust relationship and 200.439 Equipment and other capital expenditures.

(e) If the contract is subject to CAS, costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.

Consistent

A cost incurred for the same purpose in like circumstances must be treated consistently as direct or indirect costs (F&A) across the institution.

Allowable

A cost must conform to any limitation or exclusion as set forth in 2 CFR 200 or in the governing sponsored project agreement as to types or amounts of cost items.

Costs that do not meet all of the above criteria may **NOT** be charged to federal grants.

IV. COMMON EXAMPLES of ALLOWABLE COSTS

- **Animals:** Allowable for the acquisition, care, and use of experimental animals, contingent upon compliance with federal regulations.
- **Books and Journals:** If an organization has a library, books and journals generally should be provided as part of normal library services and treated as indirect costs (F&A).
- **Consultant Services:** A consultant is an individual retained to provide professional advice or services for a fee but is not an employee of the University.
- **Donor or Subject Participants Costs:** Allowable for payment to volunteers or research subjects who contribute blood, urine samples, and other body fluids or tissues that are specifically project related. Research may involve

interviewing or observing human subjects, and incentives for participants are allowable. In the proposal budget, donor/participant costs should be reflected on a separate budget line. All research involving human subjects must be approved by one of Pepperdine's two IRBs. Further, PIs must include the plan for payment of research subjects in the protocol submitted to IRB.

- **Dues or Membership Fees:** Dues for memberships in academic, business, professional, or technical organizations are generally not allowable as direct costs because they are included in the indirect cost rate (F&A).
- **Equipment:** Allowable for purchase of new, used, or replacement equipment as a direct cost or as part of indirect costs (F&A), depending on intended use of equipment.
- **Salaries and Wages:** Compensation for personnel services covers all amounts, including fringe benefits, paid currently or accrued by organization for employee services rendered to the sponsored project.
- **Stipends:** Payments made to an individual under a fellowship or training grant in accordance with pre-established levels to be used for living expenses during training.
- **Telephone Cost:** Basic phone is generally included as indirect cost (F&A), however it may be charged as direct cost provided the line is used solely on a sponsored project. Toll calls may be allowable as direct costs if they can specifically be identified as related to a sponsored project.
- **Travel:** Generally allowable as direct cost where travel directly benefits the sponsored project.

V. COMMON EXAMPLES of UNALLOWABLE COSTS

- **Alcohol:** Unallowable as an entertainment expense.
- **Entertainment Costs:** Costs of amusements, social activities, and related incidental costs are unallowable.
- **Meals:** Unallowable unless specifically budgeted in the proposal for meetings and conferences.
- **Parking/Traffic Fines:** Parking tickets and fines for traffic violations are unallowable under any circumstances.

VI. CONSIDERATIONS and REQUIREMENTS RELATED to SPECIFIC CATEGORIES of EXPENSES

Personnel-Related Expenses

Personnel appointments to sponsored projects must comply with the Human Resources Policies of the University. Payments of salary or wages to personnel are made through the University's PeopleSoft System and are administered by the University's Finance Department.

Faculty and Staff Salaries

The portion of an employee's salary that is equal to the portion of time or effort that

employee devotes to the sponsored project is charged directly to that project. For example, if a faculty member has a nine-month appointment and dedicated one month of effort to the sponsored project, one-ninth of his academic year salary is charged to the sponsored project. Salary increases may be charged in proportion to the effort dedicated to the sponsored project if sufficient funding exists in the project budget to accommodate such charges and the agency has indicated prior approval is not necessary.

Summer Salaries

Many sponsors provide funding to compensate faculty members with nine-month salary bases for their work on the project during summer months at the regular salary rates paid by the University when included as part of the project proposal. When the University submits a proposal that seeks funding for summer salaries, the University is not committing to pay such salaries if the sponsor does not provide for those salaries in the project award, nor does the University agree to pay the capped portion of a salary if the sponsor imposes such a cap.

Additional Compensation

Project funds may not be used to raise the regular salaries or wages of the PI or other project personnel.

Non-Employee Personal Services to Sponsored Projects

Often, the services of individuals not employed by the University are required in order to perform the work of the sponsored project. Such services may include consulting, preparing reports, presenting lectures, conducting seminars, or other similar activities that are necessary in order to successfully complete the project. However, payments for such services must be categorized and documented correctly within the accounting system in order to avoid audit exceptions. The following is offered to provide guidance related to such expenses:

- **Honoraria:** Most federal agencies do not allow honoraria to be charged to a sponsored project. Honoraria are deemed a payment or reward given principally to confer distinction on, or to symbolize respect for, the recipient. Where possible, payment for work on a federally sponsored project should be categorized with respect to the type of service, for example, lecture fees or consulting fees instead of honoraria. Projects funded by non-governmental sponsors may be charged for honoraria where appropriate and with the specific approval of RSP.
- **Lecture Fees:** Such fees may be charged to sponsored projects involving training, assuming they are allowable under the terms of the given grant. Lecture fees are not allowable charges to research projects.
- **Other Non-University Employee Services:** For personal services outside of the above categories, a specific description of the work and its purpose must be submitted along with the request for payment. Payment for such services

are ordinarily allowable charges if the work was essential to the completion of the project, the charges for the work are reasonable, and an appropriate selection process was utilized to find the most highly-qualified service-provider available.

- **Payment of Non-University Employee Travel:** If a non-University employee bills for travel in relation to the above services and submits original receipts documenting the travel expenses, those travel expenses ordinarily will be considered for reimbursement. This reimbursement is not reported to the IRS. In the event that original travel receipts are unavailable, the PI should contact the Finance Office in order to find out what procedures must be followed for consideration of reimbursement.

Travel Expenses

Travel requests and reimbursements for sponsored projects must comply with, and are processed in accordance with, the University's Travel and Entertainment Policy, federal and state law, and any restrictions placed upon the specific sponsored project to which the travel is being charged. In addition to the foregoing, travel expenses charged to a sponsored project must comply with the following guidelines/requirements:

- **Unallowable:** Dependent travel or personal side-trips cannot be charged to a sponsored project account.
- **Relationship to Sponsored Project:** Each request for travel reimbursement must clearly explain how the travel related to sponsored project effort.
- **Domestic Travel:** Domestic travel for carrying out work related to sponsored projects is usually allowable, although certain awards, such as federal contracts, may limit the amount of reimbursement available or may require that the travel arrangements adhere to federal regulations regarding such travel.
- **Foreign Travel:** Foreign travel is most often defined as any travel outside of the United States and Canada, although some awards may provide a different definition of foreign travel. Certain sponsors may require that they approve foreign travel in advance and in writing, even where the award includes funding for such foreign travel. Federal awards mandate that all foreign travel be done on US-flag air carriers wherever possible, regardless of cost or inconvenience. This requirement also applies to non-federal funds that represent cost sharing on federal awards.

Equipment

Many sponsors permit the University to acquire *non-expendable equipment* using grant or contract monies, provided that such equipment is necessary to perform the project. Non-expendable equipment is generally defined as items with a unit cost of \$5,000 or more and that have a useful life of one (1) year or more. Examples of non-expendable equipment include both equipment used for a special purpose (such as research, scientific, or other technical activities, with an example being laboratory

instrumentation) and equipment used for general purposes (i.e., equipment not solely used for research, scientific, or other technical activities, with examples including office furniture and computers).

- **Prior Written Approval:** Some sponsors require the University to obtain prior written approval before it can buy equipment using grant funding whereas decisions. The PI should determine the specific requirements of the sponsor, and should consult with RSP, prior to purchasing any such equipment.

VII. INDIRECT COSTS ALLOCATION

Indirect Costs, also known as Facilities and Administrative Costs (F&A) or overhead, are costs which are necessary to support research and other sponsored projects, but which cannot be readily assigned to individual projects. Indirect costs include the costs of facilities operations (utilities, maintenance, security, etc.), the library, departmental administration, and general university administration (grant administration, accounting, personnel, payroll, purchasing, etc.).

The University has negotiated two distinct indirect cost rates (F&A) with the federal government for projects that are conducted on-campus and off-campus. The current on-campus rate is 62% of salaries and wages (S&W). The off-campus rate is 20% of S&W.

The application of the indirect cost rate (F&A) to grants represents a recovery of costs incurred by the University in providing services to the projects. The University has chosen to re-invest these reimbursements to support faculty scholarship by providing administrative support as well as internal grants.

VIII. EMPLOYEE BENEFITS COSTS (FRINGE BENEFITS)

The University uses a comprehensive fringe benefit rate to recover its employee benefits costs. For proposals submitted to federal agencies, the rate is a result of a yearly negotiated agreement with the Department of Health and Human Services and should be applied to applicable salaries and wages. Inquire with RSP regarding the current negotiated rate that should be applied to federal projects, as well as the actual costs incurred by the University as the difference between the two is to be covered by the PI's department. For proposals to all other funders, include the current actual rate incurred by the University.