

### **80.3 Policy on Allowability and Consistent Treatment of Costs**

**Approval Authority:** Cabinet  
**Responsible Executive(s):** Provost and Vice President for Academic affairs  
CFO, Vice President for Finance and Treasurer  
**Responsible Office(s):** Office of Sponsored Programs  
Office of Sponsored Accounting and Cost Analysis  
**Revised:** September 25, 2019 <sup>1</sup>

#### **I. Purpose of this Policy**

The University receives funding from federal, state and other sponsors in support of research, instruction and other activities awarded through grants, contracts and cooperative agreements (“Sponsored Projects”). The purpose of this policy is to provide guidance to schools, departments, units and personnel of the University for proposing and administering direct and indirect costs on Sponsored Projects, in accordance with Federal or other sponsor requirements.

#### **II. Policy**

It is the policy of the University that all costs proposed or incurred on a Sponsored Project comply with sponsor terms and conditions, University policies and procedures and applicable Federal, state and local regulations. The University administers Direct and Indirect Costs<sup>2</sup> on Sponsored Projects in accordance with Federal and other sponsor requirements. Consistent with federal regulations, Sponsored Projects may be charged directly only for costs that are allowable, reasonable and allocable.

The primary responsibility for the sound fiscal management, as well as the programmatic direction, of a Sponsored Project belongs to the individual faculty member who is the grant or contract principal investigator (PI). The Principal Investigator (PI) is ultimately responsible for ensuring appropriate financial management, compliance with sponsor terms and conditions, as well as determining actual Effort expended on a sponsored project.

#### **III. Procedures for Implementation**

For managing expenditures on Federal grants and contracts, the University follows the Federal Office of Management and Budget Uniform Guidance (OMB Uniform Guidance), Cost Accounting Standards (CAS) and its own Disclosure Statement approved by the Division of Cost Allocation in the Office of Naval Research. The OMB Uniform Guidance establishes principles

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<sup>1</sup> Original Policy finalized and effective as of October 6, 2008.

<sup>2</sup> Capitalized terms not defined within Sections I-V of this Policy shall have the meanings set forth in Section II.

for determining costs applicable to federally sponsored agreements, contracts and other agreements with educational institutions. Because the University receives Federal funding exceeding \$25 million, the University's costing practices for Sponsored Projects must also comply with CAS. For Sponsored Projects funded by a non-Federal sponsor, the award terms and conditions generally dictate whether an expense can be charged to a project. However, when a sponsor's terms and conditions allow an expense, but University policies and procedures or applicable Federal, state and city laws and regulations do not, the expense cannot be incurred. The more restrictive requirements apply.

#### **A. Allowability of Costs**

For any costs to be charged directly to a federal award the expense must be allowable.

Factors affecting allowability of costs are as follows:

- 1. Reasonableness:** A cost is considered reasonable if the nature of the goods or services acquired or applied and the amount reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision was made to incur the cost.
- 2. Allocability:** Costs should be allocable to sponsored agreements under the principles and methods of the OMB Uniform Guidance. A cost is allocable to a particular sponsored project if the goods or services involved are chargeable or assignable to the project in accordance with the relative benefits received in proportion to use on an award.
- 3. Consistency:** CAS and the OMB Uniform Guidance require the consistent application of cost accounting principles. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. Where the University treats a particular type of cost as a direct cost on Sponsored Projects, all costs incurred for the same purpose in like circumstances must be treated as direct costs for all activities of the institution. Consistent treatment of costs is necessary to avoid inappropriate charges to the Federal government.
- 4. Allowability:** A cost is allowable when it is permitted under Federal Regulations (on Federal awards) or the terms of the Sponsored Project. Charging a cost because it was included in the budget approved by the sponsor does not necessarily make it allowable

#### **B. Unallowable Costs**

On Federal awards, payments received by Stevens for costs determined to be unallowable must be refunded in full to the awarding agency.

When costs are determined to be unallowable based on an internal review, such costs will be: a) rejected and routed back to the original processing function; or, b) adjusted by the Division of Finance via a journal entry that removes the charge from the Sponsored Project and assigns it to an institutional account.

### **C. Treatment of Direct Costs**

Direct charges to a Sponsored Project should support the Sponsored Project's purpose and activity and be necessary to meet the scientific and technical requirements. Charges cannot be assigned arbitrarily or for the purpose of simplifying budget management that is unrelated to the sponsored agreement's purpose. Direct charges to sponsored agreements are expected to adhere to the sponsor's restrictions in the Notice of Award and budget and to support the sponsor's programmatic intent.

#### **1. Documentation of Direct Costs**

- a. The cost must be identified with the activity in the sponsored award to which the cost is charged.
- b. Documentation that links the cost incurred to the Sponsored Project activity should be maintained by a PI or a designee in a position to know the Sponsored Project activity. Departments should include a detailed explanation as to how the item benefits the project when submitting the purchase requisition or request to pay an invoice.
- c. Documentation for sponsored awards must be maintained in accordance with Stevens' Records Retention Policy and associated schedule for Sponsored Programs. Corporate, or other sponsors, may have varying award terms addressing retention requirements.

### **D. Treatment of Indirect Costs**

Expenses incurred for general departmental and institutional business are recognized as Indirect Costs. Costs incurred for administrative and support services that benefit departmental activities and costs incurred by separate departments and organizations established primarily to administer Sponsored Projects are identified separately by account code in the financial records and recognized as indirect expenses.

#### **1. Special Purposes or Circumstances Where Direct Charging of Costs Normally Treated as Indirect Costs may be Appropriate:**

In instances where Federally-sponsored projects require administrative and clerical supplies, postage and telecommunications (expenses similar to the charges identified normally as administrative costs), such costs may be charged to sponsored projects as direct costs if they meet the criteria described at 2 C.F.R §200.413 (c) in Uniform Guidance.

### **E. Allocation of a Direct Cost Across Two or More Sponsored Projects**

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.

The criteria for allocation of costs to two or more sponsored projects are as follows:

1. The cost in question should be identified specifically with the group of sponsored projects relatively easily and with a high degree of accuracy; and;
2. The department must maintain written documentation generated or approved by the PI or Co-PI demonstrating specific identification.

## V. **Definitions**

**Direct Costs:** Costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either Direct or Indirect costs.

**Disclosure Statement:** Disclosure Statement - a written description of a contractor's [cost accounting practices](#) and procedures (48 C.F.R. §9903.202.1. The Stevens' Disclosure Statement (DS) is managed and maintained by the Office of Sponsored Accounting. Among the items included in the Stevens' DS are:

- General Information
  - Cognizant Federal Agency (Office of Naval Research)]
  - Cognizant Federal Auditor (Defense Contract Audit Agency
  - Description of Stevens' Cost Accounting System
- Description of Direct Costs
- Description of Indirect Costs
- Depreciation and Use Allowance
- Other Costs and Credits
- Deferred Compensation and Insurance Costs

**Effort:** The amount of time spent on a particular activity, including the time spent working on a Sponsored Project to which salary is directly charged or contributed. Individual effort is expressed as a percentage of the total amount of time devoted to work-related activities for which the University compensates an individual, including instruction, research and administrative work.

**Indirect Costs:** Indirect Costs are those costs incurred for a common or joint purpose benefitting more than one cost objective, not readily assignable to the cost objectives specifically benefitted without effort disproportionate to the results achieved. OMB Uniform Guidance specifically identifies that office supplies, postage, local telephone costs, and memberships must

normally be treated as Indirect Costs, also referred to as facilities and administrative costs (F&A Costs).

**Notice of Award (NOA):** A Notice of Award (also referred to as a ‘Notice of Grant Award’ (NOGA); Sponsor Notice; Award Letter; Award Notice; Contract Notification etc.) is a notification from a sponsor indicating that a proposal has been funded. This is a legal document issued to notify the awardee that an award has been made and includes the sponsor’s terms and conditions.