The following guide is to assist Principal Investigators (PI) in conjunction with Department Chairs, Administrative Assistants and Sponsored Programs (SPA) personnel, to understand compliance with University, State, and Federal policies for charging costs to Sponsored Programs.

The UT Southwestern accounting system places considerable authority and responsibility directly with the Principal Investigator and their respective departments. Such a system requires the development of significant expertise at the department level and relies heavily upon the compliance of principal investigators, administrative assistants and those who create accounting documents.

Charges on grant accounts are certified by Principal Investigators to confirm the appropriateness of the expense each month via the Statement of Account. Pro Cards allow for expenditures that are confirmed after the fact and may already be paid for by the University. Even though Pro Cards are intended to increase the ease of use for charging expenses to grant accounts, there is an increased audit risk and therefore Pro Card statements are reviewed with more scrutiny to ensure costs are appropriately documented.

This guide is based upon best practices among other universities and federal audit findings for determining allowability of costs on federally funded projects. The guide describes the normal treatment of costs and does not claim absolute allowability for cost items as specific situations may warrant exceptions to the treatment of costs. This guide, however, is intended to clarify the rationale for items of costs to better assist PIs, department staff and SPA personnel to work together and ensure compliance.

Sponsored Programs Administration welcomes all questions regarding budgeting, appropriate costs, compliance with various policies, and the terms and conditions that may affect sponsored programs. SPA may be contacted at extension 8-0860.
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I. BASIC PRINCIPLES AND DEFINITIONS

A. General Philosophy of 2 CFR, Part 200
The Office of Management and Budget developed 2 CFR, Part 200 to describe the treatment of costs on sponsored project activities (direct and indirect) that can be billed to the federal government. 2 CFR, Part 200 applies to all federally funded projects including federal funding through a non-federal agency.

2 CFR, Part 200: The recipient institution is responsible for ensuring that costs charged to a sponsored agreement are “reasonable, necessary, allocable, and otherwise allowable...”

A.1 §200.404 Reasonable (includes Necessity)
The basis for determining reasonableness is that a cost would withstand public scrutiny - i.e., objective individuals not affiliated with the institution would agree that a cost is appropriate on a sponsored project. A reasonable cost is one where the nature and amount of the goods or services acquired reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision was made to incur the good or service.

Typical tests to determine if a cost is Reasonable:
• Whether the type of cost is generally recognized as necessary for the operation and performance of the sponsored project.
• Whether the purchaser acted with due diligence in a given circumstance relative to their responsibilities and role to UT Southwestern and the general public.
• Whether the actions taken by the purchaser were consistent with established UT Southwestern policies and practices applicable to the goals of the sponsored project.

Example of costs potentially deemed not necessary or reasonable:
• A piece of equipment purchased near the expiration of the project. Is it reasonable to purchase a lab computer 15 days before project expiration when the final work, report or project objectives could be completed using existing or alternative resources? Could a reasonable justification be provided to warrant the necessity of a piece of equipment that is perceived to benefit the project for only 15 days? Typically equipment is budgeted and purchased at the beginning of research projects.

A.2 §200.405 Allocable
A cost is applicable to a particular sponsored project to the extent in which the sponsored project benefits from the expense. Expenditures should be allocated to accounts in accordance to the benefit or use to be expected from the good or service.

A cost is allocable to a sponsored project if:
• It is incurred solely to advance the work under the sponsored project.
• It benefits a sponsored project in a proportion that can be approximated using reasonable methods.
• It is necessary and reasonable to the extent that is assignable to the sponsored project.
Allocations of Direct Costs Between Two Or More Grants Or Contracts

2 CFR, Part 200.405: “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, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis....”

Special equipment or other unique items specifically budgeted and authorized in a sponsored project may be 100% allocable to that project regardless of the subsequent use of the special equipment or unique item. Equipment purchased or transferred using government funds may be subject to other terms and conditions or other agreements that set the priority of use of equipment to specific parties. This can be a reasonable basis for determining 100% of a cost as being allocable to the sponsored project in which the equipment or item was specifically budgeted.

2 CFR, Part 200 provides two kinds of flexibility for allocating an allowable direct cost across two or more grants:

1). The proportional benefit rule can apply across two or more grants whether or not they are technically and scientifically related, but the distribution of costs across grants must correspond roughly to the distribution of the corresponding benefit.

2). The interrelatedness rule can apply only across two or more grants that are scientifically and technically related, but the distribution of the cost does not have to reflect the distribution of the corresponding benefit (because the proportional benefit cannot be measured.) Interrelatedness must be documented by the PI when applying this rule to multiple projects.

A.3 §200.400 Allowable

A direct cost is allowable on a federal grant or contract if it is:

- reasonable and necessary in accordance §200.404
- allocable to the sponsored project in accordance with section §200.405
- consistently treated as a direct cost in accordance with sections B and D herein
- conforming to the limitations or exclusions in 2 CFR, Part 200, the award terms and conditions, and University policies

B. Definition of Direct Costs

2 CFR, Part 200.413: “Direct costs are those 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 (F&A) costs.”
A direct cost is one where a specific grant or contract gains explicit benefit from that cost for a specific programmatic purpose. Examples of common direct costs expenses are: salaries, wages, fringe benefits, materials and supplies, equipment, STEM tuition, travel, etc.

C. Definition of Indirect Costs
2 CFR, Part 200.56: “Indirect (F&A) costs means those 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. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect (F&A) costs.”

Indirect costs are infrastructure costs of the University needed to support the programs of the institution, including research and other sponsored programs. Building depreciation, maintenance costs, the cost of electricity and heat, accounting services, personnel services, departmental administration, purchasing, and human subjects administration are examples of indirect costs. Sponsored projects in which the university’s full IDC rate is limited or reduced due to sponsor policies can allow for the university to recoup this loss through direct charging of costs normally considered indirect.

D. Definition of Unallowable Costs
UT Southwestern defines unallowable costs as those expenses which are not reimbursable under the terms and conditions of federally sponsored awards or agreements and/or those specifically identified as unallowable in 2 CFR, Part 200.

Typically, unallowable costs include:

1. Advertising—including radio, television, exhibits, promotional items, production of internal newsletters and magazines. Advertising costs for patient recruitment and fellowship and training programs are allowable.
2. Alcoholic beverages
3. Graduation ceremonies and other commencement expenses
4. Bad debt expense
5. Internal allocation of interest
6. Fund raising
7. Fines and penalties
8. Costs of professional investment advice
9. Costs of faculty or administrative housing
10. Personal use of institutional automobiles or other property and services
11. Club and civic and community memberships
12. Alumni activities

13. Lobbying

14. Public relations

15. Medical malpractice insurance

16. Meals and travel associated with lobbying, fund raising, alumni activities

17. Entertainment for holidays, retirements and other costs for recruiting, entertaining, and tickets to events

18. Student activities

19. Unrecovered costs (losses) of service centers

20. Costs for prosecuting claims against the federal government

21. Overdrafts on restricted funds

22. Contributions and donations

23. Passports

E. Consistent Treatment of Costs

Consistent treatment of costs is specifically required by 2 CFR, Part 200.403 to assure that the same types of costs are not charged to grants and contracts both as direct and as indirect costs. Consistency means that costs incurred for the same purpose in like circumstances must be treated uniformly either as direct costs or as indirect costs. Thus, if certain costs, such as office supplies and postage, are treated as indirect costs, the same types of costs cannot be directly charged to programs, unless the circumstances related to a particular program or activity are clearly different from the normal operations of the institution. The consistency requirement applies to the institution as a whole. Costs must be classified consistently across all the departments and other organizational units of the university. For example, if technicians' salaries are charged directly to grants and contracts, the institution would need to treat the salaries of staff performing comparable work on non-sponsored programs as direct costs of those programs and exclude these costs from its indirect cost pool.

F. Cost-Sharing, In-Kind, Matching Expenses

All cost sharing costs on federally funded projects must meet the requirements of 2 CFR, Part 200.306 just as if they were directly charged to the sponsored projects. Costs determined unallowable under direct costs on a particular federally-funded grant or contract cannot be cost shared on that award. Costs that are not allowable based on specific sponsor regulations may be allowable as cost sharing if these costs are not disallowed under 2 CFR, Part 200.306.

G. Documentation

All costs on federal sponsored projects must be reasonable, necessary, allocable, and otherwise allowable in addition to being verified by someone in the position to know the appropriateness of the charge (e.g., the PI). Appropriate documentation must be maintained by the Department in accordance with University Policy.
II. EXAMPLE TREATMENT AND TYPES OF COSTS
    The enforcement, interpretation and methods for determining cost allowability or treatment of costs are based on results of many audit interpretations, best practices among other Universities, and conformance to University policies and systems. Following are example “questionable costs

Further guidance and an example listing of costs treated as direct or indirect can also be found at https://grants.nih.gov/grants/policy/nihgps/html5/section_7/7.9_allowability_of_costs_activities.htm

A. ADMINISTRATIVE AND CLERICAL STAFF SALARIES
    From 2 CFR, Part 200.413: “The salaries of administrative and clerical staff should normally be treated as indirect costs. Direct charging of these costs may be appropriate if all of the following are met”:
    • Administrative or clerical services are integral to a project or activity
    • Individuals involved can be specifically identified with the project or activity
    • Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
    • The costs are not also recovered as indirect costs.

A.1 Clarification
    2 CFR, Part 200 says that the salaries of administrative and clerical staff should normally be treated as indirect costs. This section goes on to say that direct charging of these costs may be appropriate where a major project or activity explicitly budgets for administrative or clerical services and the individuals involved can be specifically identified with the project or activity. What is the intent of this provision and under what circumstances may these costs be directly charged to sponsored agreements?”

Answer

“This provision is intended to establish the principle that the salaries of administrative and clerical staff should usually be treated as indirect costs, but that direct charging of these costs may be appropriate where the nature of the work performed under a particular project requires an extensive amount of administrative or clerical support which is significantly greater than the routine level of such services provided by academic departments. The costs would need to meet the general criteria for direct charging i.e., be identified specifically with a particular sponsored project... relatively easily with a high degree of accuracy, and the special circumstances requiring direct charging of the services would need to be justified to the satisfaction of Sponsored Programs Administration and the sponsoring agency.”

The following examples are illustrative of circumstances where direct charging the salaries of administrative or clerical staff may be appropriate.

• Large, complex programs, such as General Clinical Research Centers, Primate Centers, Program Projects, environmental research centers, engineering research centers, and other grants and contracts that entail assembling and managing teams of investigators from a number of institutions.
Projects which involve extensive data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, and reporting, such as epidemiological studies, clinical trials, and retrospective clinical records studies.

Projects that require making travel and meeting arrangements for a large number of participants, such as conferences and seminars.

Projects whose principal focus is the preparation and production of manuals and large reports, books and monographs (excluding routine progress and technical reports).

Projects that are geographically inaccessible to normal departmental administrative services, such as seagoing research vessels, radio astronomy projects, and other research field sites that are remote from the campus.

Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocol, IRB preparations and/or other project-specific regulatory protocols; and multiple project-related investigator coordination and communications."

These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples. Where direct charges for administrative and clerical salaries are made, care must be exercised to assume that costs incurred for the same purpose in like circumstances are consistently treated as direct costs for all activities. This should be accomplished by ensuring the costs are directly to the appropriate activities.”

A.2 UT SOUTHWESTERN Interpretation and Implementation Procedures for Administrative Costs

1. Major Activity
   The dollar value of a grant or contract is just one factor in designating a specific program or project as “major.” The scope of the project, type of effort, and degree of effort involved must be considered. Administrative costs may be allowable on a “major project” provided they

   a. are specifically associated with the work of the grant or contract, either as part of an unusually large or complex activity that requires separate administrative support, or an administrative effort that is required to complete the specific and distinctive requirements of a particular grant or contract or group of grants or contracts;

   b. represent extensive work, significantly more than the routine level;

   c. are a realistic reflection, through appropriate documentation, of planned or actual effort;
For example, if a person spends 50% time working with UTSW’s financial accounting system to process expenditures on multiple sponsored project accounts and vouchers for a research department, this represents a significant level of effort, but does not make a direct contribution to the programmatic success of the sponsored project. Therefore, the function being performed is an indirect function and considered to be an indirect cost.

2. **Specific Identification**

Individuals whose salaries and related fringe benefits are paid from a grant or contract must have responsibilities identified specifically with the work of the project (e.g., administrative work specifically related to the distinctive scientific and technical requirements of the grant or contract.) Supporting certification and time and effort reports will be required.

The salaries and related fringe benefits of individuals whose responsibilities do not meet these standards cannot be charged directly to a grant or contract without the approval of the UT SOUTHWESTERN dean/director of the college/school/institute/center and the appropriate Sponsored Programs Administration specialist. Examples of the kinds of circumstances where these costs can be directly charged. Responsibilities that duplicate normal departmental administrative functions such as proposal preparation, accounting, payroll, purchasing, etc. cannot be charged directly to a grant. The cost of administrative work such as library searches, filing, and manuscript preparation would not be considered allowable direct charges because such work is common across many grants. Such costs may support grant or contract activity, but they are classified by 2 CFR, Part 200 as indirect costs because they do not meet 2 CFR, Part 200.413 “specific identification” standard.

3. **Justification**

To comply with 2 CFR, Part 200, the percent of effort, salaries, and fringe benefits of administrative and clerical positions must be specifically included in the proposal budget and be clearly explained.

B. **Costs Normally Treated as Direct Costs**

2 CFR, Part 200.413: “Direct costs are those 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.”

This policy limits direct charges to a federally-funded grant or contract that directly support the purpose and activity of the grant or contract. The following are examples of acceptable direct costs that meet 2 CFR, Part 200 guidelines if identifiable to a particular sponsored project:
• **Supplies and Operation costs:**
  Laboratory supplies (e.g., chemicals), lab notebooks, data storage supplies (e.g., CDs, CD jackets and wallets, and zip storage), aluminum foil and plastic wrap for packaging and preserving specimens, animals, animal care costs, computer costs, travel costs, technical and scientific equipment (and related maintenance agreements under $5,000), and specialized shop costs.

• **Communication/Shipping/Phone Costs:**
  Long distance phone charges, shipping and handling costs (not ordinary postage and assuming directly related to the project). Dedicated cell phones/telephone lines to conduct surveys or clinical subject contact lines are allowable as these are unlike circumstances to routine business purposes.

  *Rationale:* These costs can be directly assigned to a particular project relatively easily and with a high degree of accuracy. Office telephones are usually used for multiple purposes (instruction, administration and research), and cannot be assigned to a specific activity or project easily.

• **Printing/Dissemination Costs:**
  Necessary dissemination costs such as printing, photocopying, duplication, research publication costs, materials required for poster or publication preparation (posterboard, photographic supplies, color paper) and page charges.

  **Documentation:**
  Direct charges should be identified with the work of a particular award or group of awards. Appropriate documentation must be maintained by the PI’s department to ensure the cost is identifiable with activity in the grant or contract. Additionally, all electronic vouchers should fully justify and link charges to the activity of the grant or contract. Documentation linking a cost to an activity should be done by someone in a position to know this linkage (e.g., the person making the telephone call, the person taking lab supplies from a common stock, etc.). A manual log, specific access codes, or assignment of charges by the project director on the monthly telephone bill are all acceptable methods for documenting telephone toll charges.

C. **Costs Normally Treated as Indirect Costs**
  From 2 CFR, Part 200, Appendix III: “Items such as office supplies, postage, local telephone costs, periodicals and memberships should normally be treated as indirect costs.”

  **Office Supplies:**
  General office supplies (paper, pencils, pens, accent markers, all purpose notebooks, binders, file folders, etc.) normally cannot be considered an allowable direct cost on a grant or contract. However, exceptions may be dictated by the nature and/or demand of the research project that could make such charges allowable when appropriate justification has been provided.

  Proposal budgets should include a detailed explanation of, and justification for, any purchase of administrative or office supplies. Requests for the addition of new spending lines on an existing award for the purchase of previously unbudgeted administrative or office supplies will be
considered by the Sponsored Programs Administration upon appropriate justification, including cost estimate.

**Postage:**
Postage is ordinarily an indirect cost of sponsored activities. However, if a particular program has a special need for an extraordinary amount of postage because of the mailing of hundreds of survey questionnaires, for example, then it would be appropriate to charge that program directly for the postage related to the questionnaires.

**Local Telephone Costs and Monthly Rental**
Local telephone and monthly rental charges are not allowable direct costs unless specifically requested and justified in the proposal and approved by the sponsor. An example of allowable monthly rental costs would be those for projects funded for telephone surveys as a major component of the research or sponsored activity.

**Memberships**
Memberships are not normally allowable direct costs unless the sponsor requires the membership for the performance of the project and the cost is specifically approved in the award budget by the sponsor. The basis of this cost being an indirect cost is because it is not easily identifiable to a specific project or University function. The reference material benefits the University, Department, colleagues, and multiple projects in such a way that it cannot be allocated with a high degree of accuracy.

In the infrequent occurrences where memberships are allowable direct expenses, special care should be taken to assure that none of the membership fee is used to support lobbying expenses.

**Photocopies**
Photocopying costs cannot be charged directly to a grant or contract except those costs directly related to a programmatic activity (e.g., the printing of surveys and questionnaires).

**Common Stock**
Office supplies drawn from common stock will be considered unallowable as a direct cost unless sufficient written documentation is kept regarding their direct applicability to the sponsored project.

**Faculty Consulting Within the Home Department**
Addressed in 2 CFR, Part 200.430, faculty are expected to consult on University of Texas at Southwestern projects as part of their University faculty appointment but supplemental compensation related to consulting services may be allowable in certain, extenuating circumstances:

“Intra-IHE consulting by faculty is assumed to be undertaken as an IHE obligation requiring no compensation in addition to IBS. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the faculty member is in addition to his or her regular
responsible for the work representing additional compensation above IBS are allowable provided that such consulting arrangements are specifically provided for in the Federal award or approved in writing by the Federal awarding agency.

Extra Service Pay normally represents overload compensation, subject to institutional compensation policies for services above and beyond IBS. Where extra service pay is a result of Intra-IHE consulting, it is subject to the same requirements of 2 CFR, Part 200.”

III. BUDGET PREPARATION and POST AWARD REBUDGETING

A. BUDGET PREPARATION
To charge expenses normally considered indirect costs on federally sponsored projects, it is recommended to list the costs explicitly in the University proposed budget, which is intended to become the sponsor approved budget. This documentation is the number one consideration for allowability on “questionable items”. The preferred test for allowability is sponsor approval. The proposed budget is the starting point for identifying “questionable” items normally considered indirect costs as direct costs. These items should be justified in the budget and budget justification.

The following example justifications and considerations should be in mind during budget preparation:

- Because all projects require a certain level of account reconciliation, correspondence, communications, and office expenses, how do the proposed costs differ from the standard level of department assistance provided to all projects?
- The job title may imply that the effort is dedicated to administrative purposes. Is the nature of the work different from the general administrative work conducted for all sponsored projects? Are the charges necessary to meet the technical or programmatic needs of the project versus the administrative needs?
- The term “office supplies” or “other” are vague and may imply that the items are being used for administrative purposes. How will the items be used to meet the technical needs of the project? Explain their relevance to technical aspects of the project above the normal expectation of these costs being provided by the department.
- Can the proposed charges be easily and accurately documented as appropriate to the project and how will this be done (allocability)?

B. POST AWARD REBUDGETING/EXPENSE TRANSFERS
It is expected that costs will be posted to the correct grant or contract at the time of purchase. However, in the event the transfer of a charge is required, the transfer should be requested as soon as the need for correction is identified. Justification must be provided to SPA for the transfer. Additional justification may be needed by SPA if the expense transfer is requested 90 days or more after the accounting date.

Likewise, it is expected that the budgets submitted to sponsors accurately reflect projected project expenses. The course of research may alter as research can be unpredictable in nature. The need to rebudget line items may be necessary to accommodate the performance of the research. However, a change in the scope of work often requires sponsor prior approval which
may require major revisions to the approved budget. Rebudgeting should never be used to circumvent the integrity of the budgeting process.

When considering items normally treated as direct costs, as an exception, local rebudgeting authority may be approved by SPA and can substitute for explicit sponsor approval in those instances where 1) the terms of the award allow rebudgeting flexibility and 2) the need for the expense was not contemplated at the time the original budget was prepared. The PI and SPA will use their judgment as to when to approach the sponsor for specific approval.

Each grant and contract account is inactivated 45 days past the project end date. After that time, only charges against open purchase orders can be posted without intervention by SPA staff. Normally, the final financial report must be filed with the sponsor within 90 days of the project end date. Therefore, approved cost transfers should be made no later than 45 days past the award period end date.

C. UNACCEPTABLE PRACTICES:
The following are unacceptable practices and justifications for charging expenditures to federally funded sponsored projects:

- Charging costs to spend remaining balances.
- Rotating charges among projects (see allocability)
- Applying a tax to projects to distribute clerical and administrative expenses within the department.
- Charging more than the actual cost of an item or service.
- “Rainy Day Purchases” where a cost may be beneficial to other projects after the project end date. The cost must benefit the project during the period of performance or for dissemination of results.
- All sponsored project expenditures may not be shifted to other sponsored projects in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law, by terms of the sponsored project, or for other reasons of convenience.
- Any costs allocable to activities sponsored by industry, foreign or state governments, or costs applicable to the University, may not be shifted to federally sponsored projects.

IV. ROLES AND RESPONSIBILITIES (related to allowable costs)

A. Principal Investigator (PI)
Prepares proposal in accordance with solicitation guidelines, estimates costs, writes budget narrative and justification for costs, administers award in accordance with 2 CFR, Part 200.400, cost principles.

B. Sponsored Programs Administration (SPA)
Provides proposal budget development support, advises PI’s and project directors regarding allowability of costs, ensures adherence to sponsor and institutional policies and guidelines. Approval of budget transfers, budget setup and expenditure transfers for journal entry by Sponsored Programs Administration.

C. Chair/Dean/Director
Approves the department commitment to the sponsored project (e.g., cost-sharing, space, effort).

D. **College/Department Administration**
   Monitors costs applied to sponsored projects, assists PI and accounting personnel in processing of charges and ensures adequate justification is provided by the PI in accordance with 2 CFR, Part 200 and University policies.

E. **Sponsored Programs Administration (SPA)**
   Enter and approve budget transfers, budget setup and expenditure transfers in the PeopleSoft accounting system.

V. **RECORD RETENTION**

   Documentation for financial records must be maintained for a minimum of three years following the official closing and sponsor acceptance of the final reports per 2 CFR, Part 200.344. All documentation in the University's financial accounting system is acceptable when complete.