

UCSF Summary

The basic cost principles must always be applied when identifying cost allowability. All costs must be reasonable, allocable, necessary, and consistently treated both directly and indirectly (e.g., following the campus F&A Rate Proposal), as well as be allowable on federal awards under the Uniform Guidance. The Uniform Guidance calls out 55 specific cost categories in sections §200.420 – 200.475. They cover a wide range of costs and have enough breadth that you can use them when trying to identify if almost any cost category is allowable on a federal or federal flow thru award. If the specific cost is not on the list, by identifying a similar cost, you can determine if your expense is allowable. Generally unallowable costs are also specifically identified in this section.

Three new or renamed cost principles:

The Uniform Guidance includes three categories that were not included or have been renamed from the previous guidance in the circulars.

- *Collection of Improper Payments, §200.428.* If an organization must pursue a subgrantee to collect money that is related to a disallowance, or go after beneficiaries of a program who have received benefits in error or fraudulently, related costs are allowable.
- *Exchange Rates, §200.440.* Cost increases for fluctuations in exchange rates are allowable costs and subject to the availability of funding.
- *Intellectual Property, §200.448.* This section includes a number of discussions related to the protection of intellectual property from misuse by others. It also covers amounts paid to others for the use of their intellectual property (such as royalty and copyright payments).

Few changes made to some categories:

A group of selected items of costs were not substantially changed in the uniform guidance from the circulars, and most are not discussed here. A few of these costs, however, are worth particular attention and are discussed below.

- *Bad Debts, §200.426.* This requirement has been present in the cost principles for years but has been tweaked somewhat in the uniform guidance because of the current emphasis in the federal government on improper payments. The cost of collecting improper payments is now allowable (§200.428).
- *Plant and Security Costs, 2 CFR §200.457.* The circulars referred to this cost item as plant and homeland security costs. The word “homeland” has been removed because apparently it has been too narrowly interpreted to mean security costs to protect against terrorist attacks. It is important to remember that it is not just plant security costs that are allowable; also allowable are the costs to generally protect personnel and work product related to federal programs.

Completely revised costs:

Countless selected items of costs have been revised in the uniform guidance from how they were presented in the circulars. The following highlights 26 of these cost items.

- *Bonding, §200.427.* The cost of routine bonding of staff members is an allowable cost normally handled as an indirect cost. Unless the government specifically requires bonding in a program in order to protect the interest of the federal government, direct charging would not be likely.
- *Conferences, §200.432.* The focus here is to underscore that conference expenses must be reasonable; that is, the costs must be “reasonable, necessary and managed in a manner that minimizes costs” to the award.
- *Contingency Provisions, §200.433.* Expenses for contingencies remain unallowable. However, OMB chooses to address these because occasionally in budgeting, particularly for construction projects, a contingency is hard to avoid. An institution can budget for a contingency, but when it actually makes the expenditures, these must be for charges that are otherwise allowable under the program or under the cost principles. For example, a budget might include a contingency amount to cover the escalation in staff or materials costs — both of which are allowable costs.

- *Contributions and Donations, §200.434.* Making a contribution or donation — an unrestricted transfer of funds — to third parties using federal grant funds is not allowable. In this section, OMB repeats much of the discussion in §200.306 on matching and cost sharing. Because third-party in-kind contributions can be used to satisfy an organization's matching or cost sharing requirement, incoming contributions and donations are acceptable under certain circumstances.
- *Entertainment Costs, §200.438.* OMB essentially states, "If the activity has a programmatic purpose, and it has advance approval from the awarding agency, it is an allowable cost." Examples of such programs might be "kick-off" activities where, at first blush, the activity may seem to be just social, but it really does have a programmatic purpose.
- *Materials and Supplies (including Costs of Computing Devices), §200.453.* As noted, OMB considers laptop computers, tablets, and smartphones to be materials and supplies. The fact that they are acquired under a federal award and then perhaps used for other purposes unrelated to the award does not necessarily disallow them. On the other hand, if an individual membership to an organization is necessary to present the findings of a grant at a conference, it may be possible to conclude that the membership is of direct benefit to the grant.
- *Memberships, Subscriptions, and Professional Activity Costs, §200.454.* This discussion addresses memberships of the organization, such as in business, professional, and technical associations, which are allowable. Memberships in country clubs or dining clubs are not allowable. There is a change, however, in that the guidance specifically states that memberships in organizations whose principal purpose is lobbying are unallowable. Section 501(c)(3) organizations that are charitable, philanthropic, or educational entities may do some lobbying, but it is not their principal purpose. Thus, memberships in those entities are allowable costs.

There is no mention in the cost principles about payment of the professional membership of an individual staff member. If an organization chooses to do so, such membership cost likely should be treated as part of the employee's fringe benefits. The principle of allocability, however, must still be considered.

- *Participant Support Costs, §200.456.* These costs as defined in the uniform guidance as "direct costs for items such as 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" (§200.75). Participant support costs are allowable with the prior approval of the federal awarding agency.
- *Recruiting Costs, §200.463.* The issues associated with these costs are primarily whether recruitment incentives are reasonable. This question is largely going to be answered by an organization's own policies
- *Rental Costs of Real Property and Equipment, §200.465.* Rent is a procurement action, and the amount paid should be reasonable based upon the availability of comparable space, the duration needed, and the property's condition. There is an extensive discussion of less-than-arm's-length leases.
- *Training and Education, §200.472.* OMB took a cost principle that was rather complex and boiled it down to a single sentence: "The cost of training and education provided for employee development is allowable."

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