BC 10.135 - Cost Principles and Unallowable Costs Policy

I. POLICY:

As the steward of sponsored funding, Baystate Health (BH) is responsible for ensuring that the management and allocation of funds is in compliance with BH, Sponsor and Award requirements.

The Office of Management and Budget (OMB) 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, requires that institutions receiving federal funding must comply with certain regulatory requirements.

II. PURPOSE:

The purpose of this policy is to provide guidance for proposing and administering direct and indirect costs on sponsored projects, in accordance with Federal and other sponsor requirements and as outlined in the terms and conditions of the sponsored research contract, grant, award, or agreement, including any restrictions on the use of funds.

BH must comply with federal regulations in the Cost Allocation Standards (CAS) and the Office of Management and Budget (OMB) Unform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

III. SCOPE:

This policy applies to all individuals responsible for the management of sponsored funding at BH, namely the Principal Investigator, Sponsored Programs Administration (SPA), and other individuals responsible for compliant and timely sponsored award management. This policy applies to all sponsored funding, including both federally and non-federally sponsored projects.

IV. DEFINITIONS:

Cost Reimbursable Contract: Cost-reimbursement types of contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed without the approval of the Sponsor.

Allocable Costs: A cost is allocable if it is beneficial to the project.

Allowable Costs: A cost is allowable if it complies with Uniform Guidance and/or other applicable sponsor guidelines as well as the terms of the sponsored agreement.

Consistency: Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs, and the method used to estimate, record, and report costs must be consistent as well.

Direct Costs: Any cost that can be identified specifically with a particular sponsored project or any other institutional activity, or that can be directly assigned (allocated) to such activities.

Documentation: Providing a detailed explanation and support documents as evidence to substantiate allocability, allowability, and reasonableness for a specific transaction.

Indirect Costs: Costs that are not directly identifiable to a specific sponsored project (e.g., costs for general operations such as utilities, building operations, purchasing, administrative offices, etc.) but are associated with the cost of doing research and/or training. Also known as "facilities and administrative" or "F&A" costs.

Reasonable Cost: A cost may be considered reasonable if the nature of the goods or services acquired or applied and the amount involved reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.

Review: A process whereby transactions are assigned as a direct, indirect, or unallowable cost per the federal regulations, sponsored agreement, and Institutional policies.

V. GENERAL STANDARDS:

BH will comply with all requirements related to cost allocation for sponsored funding and will provide cost effective controls to account for appropriate usage of sponsored funds in accordance with 2 CRF 200 and/or the applicable sponsor regulation.

As such, BH Principal Investigators (PIs) and grant management personnel are responsible for the monitoring of award expenditures to ensure that such expenditures are compliant with this policy. Direct cost charges to a sponsored program must be incurred within the limitations set out by the notice of award, sponsored award document, and/or sponsor specific requirements.

Charges to all sponsored projects awards must comply with the following criteria:

A. Allowable

All sponsored project costs (regardless of whether an award is federal or non-federal) must meet the allowable cost criteria to be charged to the project.

The Uniform Guidance 200.403 states that, except where otherwise authorized by statute, costs must meet the following general criteria to be allowable under Federal awards:

- Costs must be reasonable and necessary for the performance of the Federal award and be allocable thereto under these principles;
- Costs must conform to any limitations or exclusions set forth in the Uniform Guidance or in the Federal award as to types or amount of cost items;
- Costs must be consistent with policies and procedures that apply uniformly to both federally funded and other activities of the non-Federal entity;
- Costs must be accorded consistent treatment. A cost must be treated consistently in similar circumstances, i.e., direct, or indirect costs; and
- Costs must be adequately documented.

If an unallowable cost is identified, grants management personnel will initiate a cost transfer on behalf of the PI to move the expense to a non-sponsored account. Unallowable costs typically include:

- Alcoholic beverages;
- Entertainment;

- First class travel;
- Fundraising and lobbying;
- Office supplies;
- Telephone costs;
- Postage;
- Membership in professional and scientific organizations;
- Interest expenses;
- Fines and penalties;
- Goods and services for personal usage;
- Sponsor-agreement specific unallowable costs, i.e. salary above a cap.

B. Reasonable

A sponsored project direct cost is reasonable if it passes the prudent person test: the nature and amount of the cost do not exceed what a prudent person would have determined when incurring the cost in the same circumstances.

The Uniform Guidance 200.404 states that 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. In determining reasonableness of a given cost, consideration must be given to:

- 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;
- The restraints or requirements imposed by such factors as: sound business practice; arm's length bargaining; Federal, state, local, tribal, and other laws, and regulations; and terms and conditions of the Federal award;
- Market prices for comparable goods and services for the geographic areas.
- 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.
- Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal awards' cost.

If an unreasonable cost is identified, grants management personnel will initiate a cost transfer on behalf of the PI to move the expense to a non-sponsored account.

C. Allocable

Cost allocation is the process of assigning charges to accounts in accordance with the relative benefits received; the cost provides a direct benefit to the sponsored project.

The Uniform Guidance 200.405 states that a cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, or the like) if the goods or services involved are chargeable or assignable to such cost objectives in accordance with the relative benefits received.

The Uniform Guidance 200.405 further prescribes that: 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 200.405 paragraphs (c), the cost may be allocated or transferred to benefiting projects on any reasonable, documented basis.

If an unallowable cost is identified, grants management personnel will initiate a cost transfer on behalf of the PI to move the expense to the appropriate account.

D. Consistent

A sponsored project direct cost is consistent if costs incurred for the same purpose in like circumstances are treated consistently as either direct or indirect costs, and the method used to estimate, record, and report costs are consistent as well.

VI. RESPONSIBILITIES:

Principal Investigators:

- Ensure that all direct costs estimated and charged to a sponsored agreement are monitored and reviewed in accordance with this policy.

SPA:

- Review proposals and monitor sponsored project expenditures for compliance with this policy.
- Provide policy and budgetary guidance to Principal Investigators.

VII. CROSS REFERENCES:

BC 10.700 - Travel Policy for Sponsored Programs Policy

BC 1.500 - Uniform Guidance Procurement Policy

VIII. REGULATORY REFERENCE:

Office of Management and Budget: Uniform Guidance

APPROVALS:

		Date:
Approved:	BH Policy Management Committee	11/19/2024
Policy Owner: (department name)	Office of Research Finance, Accounting and Financial Reporting	
Author:	Shannon Chism, Senior Director, Office of Research	

Reviewers: (Stakeholders)	Sherry Gallese, Supervisor, Finance Accounting and Financial Reporting Jennifer Pacheco, Director, Research Compliance	
Replaces:	N/A	
Original Effective Date:		11/19/2024
Review Dates:		
Revision Dates:		