



CONTRACT AND GRANT MANUAL

BUDGET AND EXPENDITURES Revised December 2011

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7-100 GENERAL POLICY AND SCOPE OF CHAPTER

It is the policy of The Regents of the University of California under University Regulation No. 4, *Academic Personnel Manual APM 020*, that “a charge shall be made sufficient to cover all expenses, both direct and indirect” incurred by the University for work conducted under extramural awards. In accordance with *Business and Finance Bulletin A-47, University Direct Costing Procedures*, section III. A., “Each accounting entity shall charge its budget with all the readily identifiable direct costs associated with the conduct of the operations of that entity.” This chapter addresses budgeting of and charging for direct costs associated with the conduct of extramurally-funded contracts, grants, and cooperative agreements. In this context, a direct cost is defined as any cost which can be readily and specifically identified as benefiting an extramurally-funded project.

With the exception of 7-500 through 7-530, this chapter is concerned with cost-reimbursement type awards. For information on costs borne by the University, see [Chapter 5, "Cost Sharing."](#) For information on indirect costs, see [Chapter 8, "Indirect Costs."](#) For general financial information, including information on the general authority to expend contract and grant funds, see [Chapter 6, "Financial-General."](#)

Direct costs should be allocable to (i.e., benefit) the project against which the costs are charged. In addition, direct cost charges to a project should be allowable, reasonable, and not prohibited by either the general or specific terms and conditions of the award. Further information on allocability, reasonableness, and allowability with respect to federal awards is found in [Chapter 6-530](#) of this *Manual*.

The preparation of proposal budgets and authorization of expenditures of awarded funds must be in accordance with all applicable University policies and requirements. (Refer to [Chapter 2](#) and Chapter 6 of this *Manual*.)

7-200 TYPES OF ALLOWABLE COSTS

This section defines the common types of direct charges made to extramurally-sponsored contracts, grants and cooperative agreements. The specific cost and performance requirements and sponsor policies of a given award will affect the type of costs that are allowable and allocable to that project. The guidelines offered below derive from, 2 CFR 220, *Cost Principles for Educational Institutions (OMB Circular No. A-21)*, [Appendix A, section J, "General Provisions for Selected Items of Cost."](#) (See 7-F01). Relevant University policy is identified, as applicable. Although 2 CFR 220 is, strictly speaking, applicable only to federal awards, it can be used as a rule of thumb for non-federal awards. For information concerning justification and documentation of expenditures, see 7-300 through 7-340. Many types of direct charges are not discussed here (e.g. copying costs, page charges, animal purchases) because their definitions are obvious. As stated in the introduction to Appendix A, section J of 2 CFR 220, "Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather determination as to allowability in each case should be based on the treatment provided for similar or related items of cost." For a complete list of the selected items of cost covered in Appendix A, section J., see [Manual Chapter 6-F01](#).

7-201 Advertising Costs

Allowable advertising costs are those that contribute to accomplishing the objectives of a sponsored project and include such items as classified advertisements used to recruit project personnel, to procure goods and services used in the project, or to recruit patients or human subjects to participate in the project.

7-202 Rearrangement, Alteration, and Reconversion Costs

Rearrangement or alteration costs are incurred to make changes in existing facilities to meet the needs of a sponsored program. Reconversion costs are incurred to restore existing facilities to approximately the same condition they were in immediately prior to the start of a sponsored

program (ordinary wear and tear excepted), before they were altered or renovated. Prior sponsor approval is required for these costs. None of the above costs include new construction costs.

Alterations or reconversions using extramural funds are subject to the same review and approvals as those made with University funds. Relevant University policy in this regard is found in the [University Facilities Manual](#) and in *Business and Finance Bulletin* [BUS-43 Materiel Management, Part V](#).

7-203 Communication Costs

Communication costs consist of identifiable charges for telephone calls, faxes, postage, etc. Basic telephone service, local calls that are not individually billed, and University mail services not identifiable with a specific project, generally would not be directly chargeable to a particular federally-sponsored agreement except under a campus-wide plan for allocating such charges. [2 CFR Appendix A section F.b.\(3\)](#) states that “Items such as office supplies, postage, local telephone costs, and memberships shall normally be treated as F&A (*sic*: facilities and administration or indirect) costs.” Telephone service specifically subscribed to and used exclusively for a particular project can be directly charged to that project.

7-204 Consultant Fees and Related Payments

Consultant fees are paid to an individual or organization, in return for expert technical or professional services rendered. Even if no fee is paid, it may be appropriate to reimburse the consultant for travel, subsistence, and related costs incurred as a direct result of performing the consulting service.

Consultant fees may be charged to extramurally-funded projects provided the costs are reasonable in relation to the service rendered to the sponsored project. Independent consultants are non-University employees, except for faculty in accordance with *Academic Personnel Manual* (APM) [section 664, "Additional Compensation/Services as Faculty Consultant."](#) Applicable University policies and procedures are contained in [Business and Finance Bulletin BUS-34 Securing the Services of Independent Consultants](#), [Accounting Manual Chapter D-371-35, "Disbursements: Honorarium Payments"](#), and APM 664.

Additional guidance is contained in *Academic Personnel Manual*, [APM 025, "Conflict of Commitment and Outside Activities of Faculty Members,"](#) [APM 380, "Faculty Consultant,"](#) and [APM 660-667, "Additional Compensation."](#)

Consultants who do not hold University appointments may be engaged on contracts and grants and paid from them when the independent consultant agreement through which the consultant is to be engaged has been approved in accordance with [BUS-34, Section V](#). Agreements providing for a payment of \$50,000 or more must be competitively bid or provide a sole source justification.

The eligibility of individuals holding local, State, or federal government positions to receive payment as consultants must be checked. Some fund sources prohibit use of certain awards for

this purpose and some governmental agencies prohibit their employees from accepting such payments.

7-205 Equipment

Equipment is defined as non-expendable, tangible personal property with an acquisition cost of \$5000 or more per item and a life expectancy of more than one year. Transportation costs associated with the purchase of equipment are counted as part of the equipment's acquisition cost. Accessories or component parts with a unit cost of \$5000 or greater which permanently increase the value or useful life of University-owned property can be added to the value of a piece of equipment as capital transactions.

If a piece of equipment must be fabricated, the cost of its components, all materials, supplies, and services from outside vendors or authorized internal recharge activities used in the fabrication process are exempt from indirect costs if title is retained by the University and the item has a useful life expectancy of more than one year. However, any department labor, travel or other operating expenses associated with the fabrication such as salaries of Principal Investigators, graduate student researchers, or other comparable personnel who participate in the fabrication process are not included in the acquisition cost of the item and are, therefore, subject to indirect costs. If the fabricated piece of equipment is a deliverable and title is not retained by the University, all costs of its fabrication are subject to indirect costs. If the fabricated item has a life expectancy of less than one year, it does not meet the definition of equipment and all fabrication costs are subject to indirect costs. For more information on the cost treatment of fabricated property, see [Accounting Manual Chapter P-415-32, Fabricated Property](#), and [Contract and Grant Manual section 15-240](#).

University equipment purchasing policies and procedures may be found in *Business and Finance Bulletin BUS-29, Management and Control of University Equipment*, and *BUS-43, Materiel Management*. Requirements for the maintenance of inventory records are found in *BUS-29*. (See also Chapter 15 of this *Manual*.)

Non-federal sponsors may define equipment differently from the University. If this definition is accepted in an award, this definition becomes the controlling one for the purposes of the specific agreement only, thus requiring an individual equipment control plan for equipment purchased under that one award. For this reason, Contract and Grant Officers are encouraged to negotiate for the University's equipment definition in all agreements, whenever possible.

7-206 Fringe Benefits

Allowable fringe benefits consist of employer contributions such as to health plans, insurance plans, social security, and retirement plans. The University charges the actual cost of fringe benefits for each employee under an extramurally-funded project in proportion to the salary and wages charged for that employee. However, if the actual fringe benefit rate for an employee on a proposal budget is not known because the position is not filled or the specific project individual has not been identified, fringe benefits on project proposals are budgeted by using an average, campus-developed, composite rate.

7-207 Insurance

With respect to direct charges to federal awards for insurance, the federal government self-insures government owned property against damage or loss. So a direct charge for this purpose is unallowable.

If there is a need for a direct charge for insurance to an award to cover risks that are not covered by the University's existing insurance plans, such a charge is allowable. See 7-209 for information on maintenance agreements. See 7-206 for information on insurance included in fringe benefits. For specific information on the major University insurance plans, see: [BUS-81, Insurance Programs](#), and [BUS-63, Insurance Requirements/Certificates of Insurance](#).

Further information about the University's insurance programs is provided in [Chapter 21 of this Manual](#) and on the Office of [the President Risk Services](#) website. Questions concerning the University's insurance programs and coverage should be directed to campus Risk Managers.

In developing any non-federal proposal budget, the General Automobile and Employment Practices Liability (GAEL) insurance assessment must be factored in as a budget line-item. Each campus has its own implementation of this assessment.

7-208 Interest

Interest costs are generally unallowable on federal awards. However, the cost of interest paid to an external party is allowable when associated with the acquisition or major remodeling of buildings, or the acquisition or fabrication of equipment costing \$10,000 or more, provided the buildings or equipment are used in support of sponsored agreements and the total cost does not exceed the rental cost of comparable assets in the same locality. Interest costs on such equipment under a federal award must be agreed to by the federal government.

7-209 Maintenance and Repair Costs

Maintenance and repair costs keep machinery and other property in an efficient operating condition. Costs for maintenance agreements should be counted as maintenance, not insurance costs. Replacement of a broken part with a comparable new part is considered as the purchase of an item of supply (see 7-210) or equipment (see 7-205). To be allowable as a repair cost charged to federal awards, the repair may not appreciably prolong the repaired item's intended life nor add to its permanent value.

7-210 Materials and Supplies

For purposes of this section, any personal property, (including fabricated parts) not considered equipment, is considered under materials and supplies. Although materials may be relatively durable (e.g., pencils, petri dishes, flasks) and supplies to be relatively expendable (e.g., paper, culture media, reagents), for purposes of this *Manual* chapter, there is no intended distinction between "materials" and "supplies." Direct material charges should include only the materials

and supplies actually used for the performance of the sponsored agreement. Material and supply charges to federally-funded projects should be based on actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the University. Materials and supplies from campus stockrooms or general stores should be consistently charged regardless of funding source. For additional information, see [Chapter 15, Property, of this Manual](#). University policy relating to the purchase and use of hazardous materials is found in [Chapter 3, Environmental Health and Safety](#), and in *Business and Finance Bulletin BUS-50, Controlled Substances Program*.

7-211 Patient Care

Sponsored projects may be charged for the cost of caring for patients who are participating in research associated with the project. Patient care charges may be made pursuant to a "Research Patient Care Rate Agreement" negotiated with the Department of Health and Human Services on behalf of a particular University medical center or affiliated hospital, or pursuant to other standard patient care rates. [Per the National Institutes of Health \(NIH\) Grants Policy Statement](#), Research Patient Care Costs are:

the costs of routine and ancillary services provided by hospitals to individuals participating in research programs. The costs of these services normally are assigned to specific research projects through the development and application of research patient care rates or amounts.

Such costs are allowable charges on a research project budget and are excluded from indirect cost calculation for the project. Costs for "Usual Patient Care," that is, expenses for care that would have been incurred even if the research study did not exist, may not be charged to the research project.

However, items such as:

1. the otherwise allowable items of personal expense reimbursement, such as patient travel or subsistence, consulting physician fees, or any other direct payments related to all classes of individuals, including inpatients, outpatients, subjects, volunteers, and donors,
2. costs of ancillary tests performed in facilities outside the hospital on a fee-for-service basis (e.g., in an independent, privately owned laboratory) or in an affiliated medical school/university based on an institutional fee schedule,
3. recruitment or retention fees, or
4. the data management or statistical analysis of clinical research results

are not considered "patient care costs" for the purpose of calculating indirect costs. These costs are budgeted and charged as miscellaneous (or "other") direct costs and are, therefore, included in the modified total direct cost base.

[See Chapter 8-512 for further information about Patient Care Costs.](#)

7-212 Professional Activity Costs

Allowable professional activity costs include the cost of meetings and conferences convened for the dissemination of technical information. Meeting and conference costs for rental of facilities, transportation of participants, meals, and incidental expenses are allowable. Meal costs must comply with [Business and Finance Bulletin G-28, Policy and Regulations Governing Travel](#).

Individual professional memberships are allowable as a direct charge if the membership is required to perform the project and would not otherwise be obtained. For example, if an individual professional membership is a prerequisite to obtaining access to data or scientific meetings where peers are presenting papers or if there are seminars or the equivalent which are directly pertinent to the work under the award, the cost should be justified in the proposal. If the individual professional membership is for the general purpose of maintaining competency in one's field, this could be viewed as a general expense and not allocated to a federal award.

Under 2 CFR 220 (A-21), meal costs relating to entertainment and social activities, as well as any other costs relating to these activities, are unallowable as charges to federal awards.

7-213 Recruiting Costs

Allowable direct recruiting costs include items such as travel costs of employees engaged in recruiting personnel (see 7-224), employment advertising (see 7-201), travel costs of applicants to be interviewed for prospective employment, and reasonable relocation costs associated with recruitment of new employees. Relocation costs are reimbursed in accordance with [Academic Personnel Manual, sections 550, 560 and 561](#); [Business and Finance Bulletin G-13, Policy and Regulations Governing Moving and Relocation; Travel](#); and [Accounting Manual Chapters A-115-87, D-371-11, "Disbursements: Advance Payments," and D-371-16, "Disbursements: Approvals."](#)

7-214 Rental and Lease Costs

Lease costs may be appropriate when space cannot be found in University-owned buildings. Real property may be leased unless the total lease cost to be charged to the project would exceed the purchase price. In such cases, purchase should be considered. Basic University guidance is given in the [University Facilities Manual](#).

Chancellors have been delegated the authority to negotiate and approve lease agreements for real property, provided the agreement conforms to Presidential guidelines. Real property leases which involve an annual rent in excess of the dollar or term limit of the Chancellors' delegation must be executed by the President or The Regents. (See [Chapter 15-620](#)). University policy on real property leasing is found in the [University Facilities Manual](#) and in the delegations of authority for [execution of licenses for use of real property](#) and for [University-related real property rental agreements \(leases\)](#).

Rental or lease of personal property must be approved by the campus Purchasing Office. (See [Chapter 15-610](#)). The Treasurer must grant prior written approval of the interest rate in any

lease of personal property. University policy on leasing personal property is implemented in *Business and Finance Bulletin* [BUS-43, Part 6, “Personal Property Special Acquisitions.”](#)

7-215 Royalties, License Fees and Patent Costs

Costs to use a patented invention or copyrighted material (e.g., software) may be directly charged to a federally-sponsored project when such use is necessary to perform the project and is applicable to project tasks or processes, unless the government has a license or right to free use of the patent or copyright.

Costs of preparing invention disclosures, reports, and related documents required by the sponsored agreement or for searching the art to the extent necessary to make such invention disclosures are allowable as direct costs.

When title is conveyed to the federal government, costs associated with preparing documents and any other patent costs in connection with the filing of a patent application are allowable. If title is not conveyed to the federal government, such costs are generally unallowable. If unusual circumstances support allocation of such costs to a federal award, the costs must be justified and agency prior approval obtained.

7-216 Sabbatical Leave Costs

Generally, sabbatical leave costs are not allowable as direct costs unless the leave is taken to perform work for the sponsored project. Sabbatical leave costs are salary and fringe benefit charges associated with approved sabbatical leave as set forth in [Regents' Standing Order 100.4\(e\).](#)

Applicable regulations are found in the [Academic Personnel Manual, section 740](#) Authority to grant sabbatical leave has been delegated to the Chancellors and to the Vice President--Agriculture and Natural Resources.

7-217 Salaries, Wages, and Paid Absences

Salaries and wages charged to sponsored agreements must be made in accordance with University payroll procedures. Holiday pay, sick leave pay, and other paid absences are included in salaries and wage charges to sponsored projects. Projected merit and cost of living increases should also be included in proposal budgets. Vacation pay is charged to sponsored projects as vacation and accrued through an assessment on payroll. Under no circumstance may the rate of salary and wage charges to a sponsored project exceed the employee's regular rate of pay.

For further information, see: [Academic Personnel Manual, section IV, “Salary Administration”](#), and [Policies Pertaining to Personnel and Compensation for staff](#).

7-218 Service Facilities

Service facilities (or "recharge centers") are self-supporting units operated by the University which provide University departments with goods and services. Service facility costs generally are allowable when the criteria listed in 7-610 through 7-630 have been met.

7-219 Student Support

Compensation paid to students for services rendered constitutes salary or wage payments. Tuition remission for student employees may be charged to awards in accordance with campus policy. Payments to registered students unrelated to services rendered constitute stipends. When the purpose of an award is to train students, tuition and fee payments as well as stipend payments for students under the sponsored award may be charged against the award if consistent with the award terms.

7-220 Subagreements, Subcontracts and Inter-Campus Transfers – Transactions with Third Parties, Campuses and the Lawrence Berkeley National Laboratory

Many times, under a prime award, a portion of the work is required to be performed by a non-University of California entity, another University campus, or the University-managed Lawrence Berkeley National Laboratory (LBNL). [Contract and Grant Memo 06-05](#), "Expanded Guidance on the Classification and Monitoring of Transactions with Third Parties under Federal Grants and Cooperative Agreements," describes three types of transactions with non-University third parties and provides guidance on the classification of such transactions and the policies applicable to each type.

Transactions which transfer funds for a portion of the work to another University of California campus under an extramural award are administered via a "Notification of Campus Subaward," published in [Contract and Grant Operating Guidance Memo 02-02](#). Transactions with the University of California-managed Lawrence Berkeley National Laboratory are covered in [Contract and Grant Memo 09-01](#), "Revised Lawrence Berkeley National Laboratory Intra-University Agreements." Transactions with Los Alamos and Lawrence Livermore National Security are also published via [OP Research Policy Analysis & Coordination \(RPAC\) memos](#).

[Chapter 16 in this Manual](#) provides further information on the general subject of subawards and subcontracts. *Business and Finance Bulletin* [BUS-43, Materiel Management](#), provides specific information on special reviews that may be necessary before proposing to solicit or undertake the administration of a subcontract and subcontract requirements in [Exhibit C, "Instructions for Use of University Terms & Conditions"](#) and Supplement 5, ["Special Terms and Conditions for Subcontracts under Federal Government Contracts."](#)

In addition, BUS-43, [Cost-Reimbursement Type Subagreements for Research, an Informal Guide](#), provides guidance for terms and conditions in subawards for research, training or public service. The Federal Demonstration Partnership (FDP) provides [subaward agreement forms on its website](#) which may be used by any institution, FDP or non-FDP member.

7-221 Taxes

University policy on the payment of sales and use taxes is contained in *Accounting Manual* [Chapter T-182-73, "Taxes: Sales and Use Tax,"](#) which states, in part:

When the University purchases an item under a federal contract or grant, and when, at the time of purchase, title to the item vests, or is to vest, in the Federal Government, ...then no State sales or use tax is due on the purchase. When title to the item vests in the University at the time of purchase, then the purchase becomes subject to State sales or use tax.

State sales or use tax should be figured into a proposal budget that includes equipment unless title to that equipment will vest in the federal sponsor.

With respect to unrelated business income taxes (UBIT), income from projects related to the University's missions of teaching, research and public service is not unrelated business income. Agreements providing a service to a non-University entity, however, may be subject to University unrelated business income reporting requirements if the provision of the service constitutes a trade or a business, has no instructional, research, or public service value, and is regularly carried on. University policy is contained in the ["University Policy on Activities Generating Unrelated Business Income."](#) Related guidance is published in Contract and Grant [Operating Guidance Memo 00-06](#), "Distinguishing between Private Gifts, Private Grants and Contracts; and Sales and Service Transactions."

Information on activities that pose a potential unrelated business income tax liability is collected each year by the Office of the President Corporate Accounting Office. The Corporate Accounting Office is responsible for preparing the University's annual unrelated business income tax return.

7-222 Termination Costs

Termination costs are amounts incurred when a sponsored agreement is terminated prior to its natural expiration date. Examples of such costs include: additional administrative and clerical expenses incurred in closing down the program; storage and transportation costs for property acquired or produced under the agreement and disposed of in accordance with special sponsor requirements; claims under terminated subcontracts; compensation to staff during their notice of termination period; severance pay; leases; and uncancellable obligations. Sponsored agreements should contain provisions for termination that obligate the sponsor to pay all termination costs, including all uncancellable obligations.

7-223 Transportation Costs

Transportation costs are defined in *Accounting Manual* [Chapter D-371-28, "Disbursements: Freight,"](#) as "the cost to transport supplies, materials, or equipment via a commercial carrier; also may include packing, crating, and handling costs."

Transportation costs associated with the purchase of equipment are budgeted as part of the equipment's acquisition cost. (See 7-205.) Transportation of individuals is budgeted as travel cost. (See 7-224.)

7-224 Travel

Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees traveling on official University business. These policies are contained in *Business and Finance Bulletin* [G-28 Policy and Regulations Governing Travel](#)

University travel policy applies to all travel using extramural funds unless an extramural award contains more restrictive travel terms. However, Contract and Grant Officers should resist accepting the application of a more restrictive sponsor travel policy as this creates a differential in University travel reimbursement for employees and is an administrative burden for departments.

7-300 JUSTIFICATION AND DOCUMENTATION OF EXPENDITURES

Expenditures may be charged to extramural awards as long as the expenditures are allowable, have been authorized in accordance with University policy, funds are available, formal prior approval has been secured if needed, and any required special reviews required have been completed. (See [Chapter 6 of this Manual](#) and *Accounting Manual* [Chapter D-371-16, "Disbursements: Approvals Required"](#). Of paramount concern in justifying a particular expenditure on an extramurally-funded grant, contract, or cooperative agreement is the question of benefit: only those costs which advance the goals of a project may be directly charged to that project. Specific information on University policies and procedures regarding direct costing and expenditure documentation is found in *Business and Finance Bulletin* [A-47 University Direct Costing Procedures](#) and *Accounting Manual* [Chapter A-000-7, "Official Documentation Required in Support of University Financial Transactions."](#)

7-310 COSTS NORMALLY TREATED AS INDIRECT

2 CFR 220 (OMB Circular A-21), [Appendix A, section F.6.b.](#) (2) and (3) require that certain costs be treated as indirect costs unless specific requirements are met. The salaries of administrative and clerical staff should normally be treated as indirect costs. Direct charging of these costs may be appropriate when a "major project" or activity explicitly budgets for administrative or clerical services and individuals involved can be specifically identified with the project or activity. "Major project" is defined as a project that requires an amount of administrative or clerical support, which is significantly greater than the routine level of such services provided by an academic department. (See [OMB Circular A-21, Exhibit C](#) for examples of "major projects.")

Items such as general office supplies, postage, local telephone costs, and memberships shall normally be treated as indirect costs unless they are specifically required to perform the project, (e.g., mass mailings requiring exceptional volumes of postage, banks of telephones to conduct surveys) and would not be required in the absence of the project.

7-320 ACCOUNTING SYSTEM

Various chapters of the [University Accounting Manual](#) and [Business and Finance Bulletins](#) series set forth the procedures and controls that campuses must institute to ensure that charges conform to University and sponsor policies and are sufficiently documented. A list of those *Accounting Manual* and *Business and Finance Bulletins*' chapters relating to specific direct costs elements is found in the "References" section of this Chapter.

7-330 EFFORT CERTIFICATION AND REPORTING SYSTEM

For University personnel who are paid on or have commitments to work on federal contract and grant funds, a certification of effort must be completed by the employee or responsible official certifying the percentage of his or her total work effort applicable to sponsored research. Failure to certify effort accurately and on a timely basis may result in the charge being disallowed by the federal agency funding the research. Although each campus may use its own procedures for obtaining the required certification, the procedure must be consistent with the following standards:

Certification of Effort

Principal Investigators and other faculty in Professorial, Professional Research, and Management titles who are paid on or have commitments to work on federal or federal flow-through funds are required to certify their own effort since they are in the best position to understand how they are spending their time in support of the various activities in which they are engaged. This is consistent with the 2 CFR 220 ([OMB Circular A-21](#)) [Appendix A. J. 10. b. \(2\)](#) requirement that the distribution of salaries and wages be supported by activity reports that are confirmed by "a responsible person with suitable means of verification that the work was performed."

The effort of staff employees who are paid on or have commitments to work on federal or federal flow-through funds must be certified by "... the employee, principal investigator, or responsible official with suitable means of verification that the work was performed."

Treatment of Effort Reporting Revisions

Changes to previously certified effort reports should be extremely rare. However, if an effort report is determined to be in error, a new one can be prepared coincident with payroll cost transfers and other extenuating circumstances. Such revisions are subject to a "facts and circumstances" review and must be processed on a timely basis consistent with federal regulations and University policy (i.e., as specified in [Business and Finance Bulletin A-47, Section V](#)) to ensure their allowability under audit. If revisions are required, the extremely unusual extenuating circumstances surrounding the need for a corrected effort report must be fully explained and documented.

Timeliness of Certifications

Timely certification of effort reports is a condition of acceptance of federal funding when direct salary charges are contemplated and incurred or cost shared salary is proposed on an award. Principal Investigators and their campus departments are responsible for ensuring full compliance with effort reporting requirements. Campus departments and Extramural Fund Accounting Offices shall take progressive action to prompt corrective action and resolution according to local campus policy when required, including:

- Notification of the Department Chair or director for resolution
- Notification of the Dean to expedite resolution
- Notification of the Vice Chancellor—Research and/or Provost/Executive Vice Chancellor and request intervention and resolution

The University shall require all effort to be certified within 120 days of the end of the reporting period. Effort not certified within 120 days may result in action being taken by the campus to reverse the charges on the award, may jeopardize submission of future proposals, cause a proposal to be withdrawn, and/or jeopardize the acceptance of future awards.

Certification of effort after 120 days may be allowed under certain circumstances, but must be fully explained and justified by the Principal Investigator and approved by the Vice Chancellor—Research (or his/her designee) and/or the campus Extramural Fund Accounting Office or as required by local campus policy.

Preciseness of Certifications

2 CFR 220 (OMB Circular A-21) provides for "a degree of tolerance" in the preciseness of effort reporting. Effort reports at the University may be completed with a preciseness tolerance of plus or minus 5%; that is, an individual at the University may thus certify a level of effort for an award or activity that is within five percentage points of their best estimate of the actual effort expended during the reporting period.

These effort reporting requirements are also set forth in the University's *Accounting Manual* [section P-196-13, "Payroll: Attendance, Time Reporting and Leave Accrual Records."](#)

7-340 PRIOR APPROVAL SYSTEMS

Many sponsors require prior approval by an authorized official for certain programmatic or administrative actions or budgetary changes in their awards to educational institutions. When the sponsor has delegated prior approval authority to the University, the campus must, in turn, designate an authorized institutional representative (usually a Contracts and Grants Officer) to approve the particular kind of request. Each campus should develop its own procedures for processing prior approval requests and notifying sponsors of approved actions, where required. See [Chapter 2](#) of this *Manual* for further information on prior approval systems. See 7-F01 for a list of cost elements requiring prior approval under A-21.

7-350 SPECIAL REVIEWS

Campuses have established procedures to monitor and review certain expenditures (or proposed expenditures) for which there traditionally have been questions or differences of opinion about the allocability, allowability, or reasonableness of the cost or concerns regarding the relation of an expenditure to the sponsored project or to the overall campus or University needs and resources. Types of costs that may need special review include: rearrangement, alteration and reconversion costs ([7-202](#)), consultant fees and related payments, ([7-204](#)), general purpose equipment expenditures ([7-205](#)), hazardous materials ([7-210](#)), major computer purchases ([7-205](#)), rental and lease costs ([7-214](#)), subawards ([7-220](#)), and travel ([7-224](#)). Many of these costs are also subject to sponsor terms requiring approval either by the sponsor or by the institutional prior approval authority. ([See Chapter 2.](#))

Proposed levels or amounts of cost sharing should be reviewed in accordance with [Chapter 5](#).

7-360 INVOICE TERMS IN EXTRAMURAL AWARDS

The invoicing/payment terms in extramural awards should not require more than a standard campus invoice. Requirements for back-up documentation for invoiced expenses are not acceptable. Such requirements are not within the administrative capacity of the campus Extramural Accounting Office or the Principal Investigator's department. They create an excessive administrative burden on the campus department. If a non-federal sponsor has excessive administrative requirements, personnel to fulfill such requirements should be charged to the award. Extramural sponsors have audit access to the University in accordance with campus policy and procedures. ([See Chapter 4.](#))

7-400 COST TRANSFERS

Cost transfers occur when goods or services originally paid for from one University account/fund are subsequently transferred to another account/fund. University guidelines on cost transfers are contained in *Business and Finance Bulletin [A-47 University Direct Costing Procedures](#)*, section V. "Expenditure Adjustments," which states that:

Once an expense entry has been recorded in an account in the general ledger, it is appropriate to make expenditure adjustments only in the following situations:

1. To correct an erroneous recording.....
2. To record a change in the decision made originally as to the use of goods or services.....
3. To redistribute certain high numerical but small individual and/or minor charges (e.g., copy machine rental and paper costs, telephone charges, mailing charges, or charges for office supplies).....

7-410 JUSTIFICATION FOR COST TRANSFERS

Transfer of costs to or from extramurally-funded contracts, grants or cooperative agreements should be made in accordance with applicable campus procedures. Justifications required for cost transfers are detailed in section V.B. of *Business and Finance Bulletin A-47, University Direct Costing Procedures*.

7-420 DOCUMENTATION FOR COST TRANSFERS

University documentation requirements for cost transfers are contained in *Accounting Manual Chapter A-000-7, "Official Documentation Required in Support of University Financial Transactions,"* section II.D.

7-430 TIMELINESS OF COST TRANSFERS

Campuses may restrict cost transfer requests that are made more than a certain length of time after the original charge was made, either by making such transfers unallowable or by requiring an explanation for the tardiness of the request. *BFB A-47* currently restricts cost transfers to "within 120 day of the original charge."

7-500 FIXED PRICE AGREEMENTS

The most common form of fixed price agreement supporting University research is the fixed price contract in which defined deliverables (usually reports) are produced by the University and the sponsor pays a pre-set amount for each deliverable. The financial terms of fixed price agreements should establish a payment schedule which provides reasonable advance payments so that the University is not inappropriately financing the research. See [Chapter 6-610 through 6-650](#) for additional information on advance payments.

Fixed price agreements should only be entered into when the University is reasonably certain that the total cost (including direct and indirect costs) to produce all deliverables will not exceed the total fixed price.

7-510 APPLICABILITY OF FEDERAL COST PRINCIPLES

For fixed-priced agreements, Contracts and Grants Officers should use 2 CFR 220 (*OMB Circular No. A-21*) ([see 7-F01](#)) as a guide to determine the allowable costs of the project. Use of *A-21* at the proposal stage will ensure that cost estimates are comparable to budgeting procedures used with other University contracts and will provide a basis for determining the reasonableness of the total contract price. With respect to awards, *A-21* is incorporated into federal grants and cost-reimbursement contracts, but should not be incorporated into fixed price agreements, whether federal or non-federal. This is because such agreements should not be bound by the prior approval requirements in *A-21*. The fixed price is the basis for payment. The costs incurred are not subject to compliance with cost principles after award and incurrence of costs is not subject to post-award audit. However, the pricing itself in a fixed price contract is subject to [Federal Acquisition Regulation \(FAR\)](#) on the development of costs and pricing.

7-520 APPLICABILITY OF UNIVERSITY DIRECT CHARGE POLICIES

Funds provided under fixed price agreements are subject to the University's direct charge policies and procedures contained in [Business and Finance Bulletin A-47](#) . In applying rules for expenditure adjustments (see section V. of A-47), funds provided under fixed price agreements should be considered as "unrestricted University funds."

7-530 DISPOSITION OF UNEXPENDED INDIRECT BALANCES

Indirect costs on funds that remain unspent after the close-out of a fixed price agreement may be retained by the campus and used at the Chancellor's discretion to support educational and research programs. (See *Accounting Manual Chapter C-557-23, "Contracts and Grants: Federal Contract and Grant Administration Funds--Allocations for Administration and Disallowed Costs."*)

7-600 SERVICE FACILITIES

It is University practice to abide by Section J. 47, "Specialized Service Facilities", of 2 CFR 220 (*OMB Circular No. A-21*) in the operation of service facilities ("recharge centers"). General elements of this practice applicable to direct costs charged to sponsored projects are discussed in sections 7-610 through 7-630, below. Specific procedures are promulgated in [Business and Finance Bulletin A-47, section VI](#). Section I., "References," of A-47 specifies other *Business and Finance Bulletins* which cover recharge costing procedures for certain areas of the University such as dental clinics, academic support units, auxiliary and service enterprises, and campus computer centers.

7-610 RECOVERY OF ACTUAL COSTS

In general, all elements of allowable costs resulting from the service provided should be recharged to users. Recharge rates should approximate the actual cost of the service provided. Specific billing and costing guidelines for recharge centers are found in [Business and Finance Bulletins A-56, Academic Support Unit Costing and Billing Guidelines](#) and [A-59, Costing and Working Capital for Auxiliary and Service Enterprises](#).

7-620 ADJUSTMENT OF PRICES

Recharge center charges are based on previously authorized established prices. These prices are to be adjusted at least once a year to eliminate accumulated surpluses or deficits.

7-630 CONSISTENT APPLICATION OF RATES

Federally-sponsored users should not be charged a higher rate than other non-University users for use of recharge center services.

7-999 RELATED UNIVERSITY REFERENCES

Accounting Manual Chapters

A-000-4, "University Accounting Program"

A-000-7, "Official Documentation Required in Support of University Financial Transactions"

A-253-27, "Administrative Fund Payments"

C-556-12, "Computing Activities: Accounting Procedures for Campus Computer Centers"

C-557-23, "Contracts and Grants: Federal Contract and Grant Administration Funds--
Allocations for Administrative and Disallowed Costs"

D-371-11, "Disbursements: Advance Payments"

D-371-12, "Disbursements: Cancellation and Redrawing of Vendor Checks"

D-371-16, "Disbursements: Approvals "

D-371-28, "Disbursements: Freight"

D-371-35, "Disbursements: Honorarium Payments"

D-371-36, "Disbursements: Invoice Processing in Response to Purchase Authorizations"

H-214-7, "Health Care Services: Professional Fees"

H-214-75, "Health Sciences Compensation Plans"

L-217-11, "Accounting and Reporting for Leases and Installment Purchase Contracts"

P-196-13, "Payroll: Attendance, Time Reporting, and Leave Accrual Records"

P-196-30, "Payroll: OASDI and Medicare Contributions"

P-196-77, "Payroll: State Tax Withholding from Employees"

P-196-78, "Payroll: UCRS Accounting Procedures"

P-196-86, "Payroll: Workers' Compensation Insurance"

P-415-2, "Plant Accounting: Costing and Reconciling Inventorial Equipment Acquisitions"

P-415-32, "Plant Accounting: —Fabricated Property "

[R-216-62, Recording Proceeds from the Sale, Trade-in, or Transfer of University Property"](#)

[T-182-73, "Taxes: Sales and Use Tax" T-182-76, "Taxes: State Fuel Taxes"](#)

[Business and Finance Bulletins](#)

[A-17, "Housing and Food Service Operations--Uniform Cost Accounting System"](#)

[A-47, "University Direct Costing Procedures"](#)

[A-51, "Application of Proceeds from the Sale, Trade-in or Transfer of University Property"](#)

[A-56, "Academic Support Unit Costing and Billing Guidelines"](#)

[A-59, "Costing and Working Capital for Auxiliary and Service Enterprises"](#)

[BUS-7, "Use of State of California Pool Cars and Garage Facilities"](#)

[BUS-8, "Acquisition and Disposition of University Vehicles"](#)

[BUS-29, "Management and Control of Inventorial Equipment"](#)

[BUS-34, "Securing the Services of Independent Consultants"](#)

[BUS-38, "Disposal of Excess Material and Transfer of University-Owned Property"](#)

[BUS-43, "Materiel Management"](#)

[BUS-50, "Acquisition and Use of Narcotics and Dangerous Drugs"](#)

[BUS-54, "Operating Guidelines for University Supply Inventories"](#)

[BUS-56, "Materiel Management: Purchases from Entities Violating State or Federal Water or Air Pollution Laws"](#)

[BUS-63, "Insurance Requirements/Certificates of Insurance"](#)

[BUS-65, "Guidelines for University Mail Services"](#)

[BUS-72, "Establishment of Auxiliary Enterprises"](#)

[BUS-81, "Insurance Programs"](#)

[G-28, "Policy and Regulations Governing Travel"](#)

[G-32, "Reimbursement for Overtime Meals"](#)

[IA-101, "Internal Control Standards: Departmental Payrolls"](#)

Additional References

[University Facilities Manual](#)

[Academic Personnel Manual, Sections 020, 230, 540-570, 600-690, 700-759](#)

[Policies Pertaining to Personnel and Compensation](#)

[President's Policy Memorandum dated November 21, 1983, regarding "University Policy on Activities Generating Unrelated Business Income"](#)

[Presidential Delegation of Authority: "Execution of Purchase Contracts, Subcontracts, and Standard Purchase Orders for Goods and Services to be Supplied to the University"](#)

[Presidential Delegation of Authority: "Negotiation, Approval and Execution of University-Related Real Property Rental Agreements \(Leases\)"](#)

[Presidential Delegation of Authority: "Negotiation, Approval and Execution of Licenses for Use of Real Property"](#)

[Presidential Delegation of Authority: "Travel Policies and Procedures"](#)

EXTERNAL REQUIREMENTS--FEDERAL

7-F01 [2 CFR 220: Office of Management and Budget Circular No. A-21, Cost Principles for Educational Institutions](#)

PURPOSE

A-21 establishes principles for determining allowable direct and indirect costs.

APPLICABILITY

A-21 cost principles apply to all federal awards to educational institutions except capitation awards, loans, fellowships, and other awards under which the institution is not required to account to the government for actual costs incurred. The principles also apply to awards made to educational institutions under subgrants or cost-reimbursement subcontracts where the ultimate source of funding is the federal government.

SUMMARY OF PROVISIONS APPLICABLE TO DIRECT COSTS

See [Chapter 6-F01](#) for a general discussion of the provisions of this *Circular*.

Sections J.1 through J.54 of *A-21* provide principles to be applied in establishing the allowability of certain costs to federal awards. Those allowable costs that are generally treated by the University as direct costs are defined above in 7-200 through 7-224.

All items in *A-21*, Section J. are identified as "allowable," "unallowable," or "allowable with prior approval." Costs specifically identified as "allowable" may be charged to federal awards so long as the relevant standards specified by *A-21* for that type of cost are met, the general standards of allocability and reasonableness (as discussed in 6-F01) are met, and the type of cost is not specifically prohibited by the terms of the particular federal award to be charged.

Costs specifically identified as "unallowable" may not be charged to a federal award.

Costs specifically identified as "allowable with prior approval" (or equivalent language) that are not included in an approved award budget or waived by the terms of the award must be approved in accordance with 7-330 and [Chapter 2](#) of this *Manual* before such costs may be charged to a federal award. Such costs include:

- J.18.a.(4) General purpose equipment
- J.18.a.(3) Special purpose equipment
- J.18.a.(1) Capital expenditures
- J. 36. Pre-agreement costs

The *Circular* states that: "Failure to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather determinations as to allowability in each case should be based on the treatment provided for similar or related items of cost."

PRIMARY UNIVERSITY RESPONSIBILITY

The [Associate Vice President and Systemwide Controller](#) -- Financial Accounting under the [Chief Financial Officer](#) is responsible for the implementation of the provisions of *A-21* in University-wide accounting policy. The Associate Vice President – Financial Accounting develops the accounting policy and implementing instructions published in the [Corporate Accounting Manual](#).

[Costing Policy & Analysis \(CP&A\)](#) is the designated University contact with the Department of Health and Human Services (DHHS), Division of Cost Allocation (DCA). CP&A advises on *A-21* costing policy interpretations with respect to the allowability of direct and indirect costs and coordinates with DCA on the allowability of direct and indirect costs, on the negotiation and calculation of facilities and administrative rates, and on [OMB Circular A-133](#) audit matters.

Campus Contracts and Grants Officers are responsible for approving proposals to and awards from federal agencies which incorporate and are in accordance with the cost principles of *A-21*, including prior approval requirements, unless waived by the terms of the award.

Campus Controllers are responsible for procedural implementation and compliance with *A-21* and for billing sponsored projects in accordance with the approved budget, including subsequent approved changes in the budget.

UNIVERSITY POLICY IMPLEMENTATION

Overall policy guidance for implementing the direct-cost-related provisions of *A-21* is contained in this *Manual* chapter.

EXTERNAL REQUIREMENTS--STATE

7-S01 [State Administrative Manual, Section 8752.1](#)

PURPOSE

This section of the *State Administrative Manual (SAM)* provides policy guidance to State agencies on costs to be recovered whenever the agency purchases goods or services from others.

APPLICABILITY

This *SAM* section is usually incorporated in interagency agreements between The Regents of the University and the State under which the State supports research, training or public service programs at the University. The applicable provisions of this *SAM* section become binding on such agreements once they are fully signed.

SUMMARY OF PROVISIONS

This *SAM* section defines direct costs as "those which can be identified specifically with a particular cost objective." Kinds of direct costs mentioned are (a) "personal service costs incurred in meeting the cost objective;" and (b) "operating expenses and equipment costs incurred in meeting the cost objective, such as the cost of contracts, travel expenses, etc." Indirect costs are defined as "those support costs which benefit more than one cost objective/organizational unit." In practice, the University uses *OMB Circular A-21* as a guide in determining allowable costs on State-funded agreements (See 7-F01).

UNIVERSITY POLICY IMPLEMENTATION

Overall policy guidance for implementing the direct cost-related provisions of the *State Administration Manual* is contained in this *Manual* chapter.

The *SAM* section states that the policy for State departments is full cost recovery, including both direct and indirect costs, on interagency agreements. However, the State has no written statewide policy regarding the reimbursement of indirect costs when contracts are awarded to the University or to non-State entities.