SOUTH DAKOTA SCHOOL OF MINES AND TECHNOLOGY

Policy Manual

SUBJECT: Basic Cost Principles

NUMBER: Policy IX-13

Introduction & Purpose

Proper management of sponsored awards is essential to meet the fiduciary responsibilities of the School. The State Division of Audit and the Federal government continue to place special emphasis on basic cost principles - timeliness, allocability, allowability and reasonableness of costs for sponsored projects. The Principal Investigator (PI) or their designee is responsible for ensuring all expenditures in their budget are allowable costs per OMB Circular A-21 – Cost Principles for Educational Institutions. Additional Circulars may also apply based upon the original funding source of the research award.

Policy

All business managers/PIs are responsible for being aware of and acting based upon the basic cost principles associated with the sound management of a business especially those associated with carrying out the goals and objectives created by a research award. Failure to do so may result in progressive stages of disciplinary action that could eventually lead to dismissal from employment. Disciplinary actions may include but is not limited to: suspension of the right to carry out research on campus; dismissal from employment with the University; and other criminal sanctions which may apply.

Definitions

Business Manager – someone authorized to approve the expenditure of funds on behalf of the Institution and/or specifically designated by a Principal Investigator to approve expenses for their Award. For institutional administrative accounts: Department Chairs/Heads, Directors, Vice Presidents, Provost and President.

Cost Principles - the fundamental concepts/constraints under which the management of all externally funded projects occur. There are four basic cost principles:

- Timeliness – one of the basic cost principles; determination of the appropriate time frame for requesting approvals or authorizing changes. Expenditures and budget revision requests need to be requested, submitted or approved in a timely fashion. Expenses need to be approved at the time of their submission to the accounting system; changes to expenditures that have already been incurred need to be approved within 30 to 90 days of the expense appearing in the financial system; and budget revisions need to be submitted and approved prior to any

spending from the revised lines. See OMB Circulars A-21, A-110 and A-133 for further definitions. See SDSM&T Policy V C.16 Cost Transfers for more information.

- Allowability – one of the basic cost principles; whether or not an expenditure may be charged to a fund. The OMB Circulars include general items of cost that are considered allowable as expenditures under a grant. State purchasing policies also factor in determining whether or not a particular expense is allowed to be charged to a grant. See OMB Circulars A-21, A-110 and A-133 for further definitions as well as V C. 14 Budget and Expenditure Monitoring for more information.

  Authorized – someone with delegated signature authority has approved the incursion of the expense. This takes two forms: the PI is generally the sole individual authorized by the award document to approve expenditures on behalf of the award as they are the individual responsible for ensuring that the objectives of the award are met. This is programmatic authorization. The second type of authorization is institutional authorization. At the creation of the fund associated with the award the PI is delegated with the authority on behalf of the institution to approve expenditures related to the completion of the award. At the inception of an award both types of authorization lie with the PI. Either or both can be delegated to other individuals by the PI by using the Delegation of Authority Form. See OMB Circulars A-21, A-110 and A-133 for further definitions. See SDSM&T Policy V C. 17 Delegation of Authority for further information.

- Allocability – one of the basic cost principles; a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received by the award from the expense; the portion of any individual expenditure that is appropriately charged to an award. See OMB Circulars A-21, A-110 and A-133 for further definitions as well as SDSM&T Policy V C. 14 Budget and Expenditure Monitoring for more information.

- Reasonableness – one of the basic cost principles; a cost is reasonable if, in its nature or 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 costs. Also, in order for it to be reasonable it has to further a goal or condition of an award (clearly benefit the award). See OMB Circulars A-21, A-110 and A-133 for further definitions as well SDSM&T Policy V C. 14 Budget and Expenditure Monitoring for more information.

Principal Investigator (PI) – person designated by an award document as the lead on a specific award. This person is the de facto Business Manager for all Funds associated with the award.

Research Award – a legal contract between the University and some other individual or organization in which a PI is designated at the University who agrees to accomplish

certain goals and tasks in exchange for reimbursement for the expenses incurred in accomplishing those goals or tasks. May take the form of a Cooperative Agreement, Contract, Contract for Services, Inter-agency Personnel Agreement, etc.

Regulations & Guidelines

OMB Circulars A-21 - Cost Principles for Educational Institutions
OMB Circular A-87 - Cost Principles for State, Local, and Indian Tribal Governments
OMB Circular A-110 - Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations
OMB Circular A-122 - Cost Principles for Non-Profit Organizations
OMB Circular A-133 – Audits of States, Local Governments, and Non-Profit Organizations
SDSM&T Accounts Payable Manual
SDSM&T Policies:
V C. 13 Basic Cost Principles
V C. 14 Budget and Expenditure Monitoring/Monthly Financial Reconciliation
V C. 16 Cost Transfers
V C. 18 Expenditure Approval
South Dakota Board of Regents Policy No. 5 et seq.
Specific Guidelines from funding sources (e.g., NSF FATCs)

Responsibility

Business Manager/PI**:** review timeliness, allocability, allowability and reasonableness of costs for sponsored projects prior to creating a budget and approve only those expenditures meeting these requirements.

Business Services: monitor expenditures as they occur in the accounting system to ensure there is sufficient budget at the fund level and expenditures/commitments occurred before the end date of the grant.

Sponsored Programs**:** Review budget for timeliness, allocability, allowability, and reasonableness of costs for sponsored projects prior to budget being submitted to governing agency; oversee the financial monthly reconciliation process and any resultant cost transfers.

Procedures

All PIs/Business Managers will receive training on the basic cost principles and allowable and unallowable costs. For research funds, documentation of the training will be kept on file with Sponsored Programs and will be renewed with each award.

Associated Documents

Completion of Unallowable/Allowable Expenditures Training Certificate

Training

A-21 Generally Allowable Expenditure Quick Reference Chart
Congratulations! Your Award has been Funded
Submitting A Proposal
Unallowable and Allowable Expenditure Training