

SEATTLE CHILDREN'S HOSPITAL RESEARCH INSTITUTE
Seattle, Washington

OPERATING POLICIES / PROCEDURES

DEPARTMENT: Office of Sponsored Research

POLICY NUMBER: OSR-16

REPLACES: N/A

EFFECTIVE DATE: 1/1/08

REVISION DATE: N/A

POLICY TITLE: Allowable Cost Policy for Federal Grants

POLICY:

The Seattle Children's Hospital Research Institute is committed to ensuring that all costs charged to sponsored projects are allowable, allocable, and reasonable and are conducted in accordance with sponsor terms and conditions, as well as Children's policies.

The Federal Government is the largest sponsor of externally funded activity at the Hospital or Research Institute. The cost principles relating to expenditures on federal awards are contained in 45 CFR Part 74 Appendix E "Uniform Administrative Requirements for Awards and Subawards for Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations," which can be found at the following web address: http://research.seattlechildrens.org/assets/docs/appendix_e_to_part_74.pdf. These cost principles require that any expense charged to a federally sponsored project be reasonable and necessary, allocable, consistently treated, and conform to any limits or exclusions set forth in 45 CFR Part 74 Appendix E or the terms and conditions of the award. In addition, individual awards may include special terms and conditions, which must be considered before allocating certain costs to the award.

Any employee who is involved with the administration of sponsored agreements should be familiar with this policy. This includes center business managers, center directors, principal investigators (PIs), staff from the Office of Sponsored Research and Research Finance, and other personnel who are involved with sponsored awards.

The goals of this policy are to:

1. Provide clear guidance as to what costs constitute appropriate direct and indirect charges to sponsored projects.
2. Achieve consistency in charging practices across the Hospital and/or Research Institute.

PROCEDURE:

- 1.1 Individuals allocating costs to sponsored projects (ordering supplies, setting payroll charges, paying for animal charges, etc.) must ensure that all costs charged to grants conform to this policy.
- 1.2 It is the responsibility of the Principal Investigator and the Center Business Manager to correctly review, process, and approve expenditures to sponsored awards, including the appropriate classification by expenditure type, allowability, and to ensure budget amounts are not exceeded.
 - 1.2.1 Each charge should be reviewed to ensure that it is:
 - 1.2.1.1 Reasonable and necessary, so that a prudent person would agree that the cost is appropriate;
 - 1.2.1.2 Allocable to the research project, so that it will directly benefit the project and/or is directly related to the research project;
 - 1.2.1.3 Consistently treated, so that the costs charged to the awards are not costs that Children's includes in the indirect cost rate, as required. Examples of costs that should NOT be charged to research projects without consulting with representatives from Research Finance and/or the Office of Sponsored Research include general office supplies and administrative salaries.
 - 1.2.2 Based upon this review, if an item is determined not to be reasonable or allocable to the particular research project, it is the responsibility of the Principal Investigator and Center Business Manager to produce a timely and accurate cost transfer. (Refer to Children's Cost Transfers on Sponsored Awards, Policy OSR-18).

DEFINITIONS:

Allocable Costs: A cost is allocable to a particular cost objective (e.g., a specific function, project, research agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Every incurred cost must have a direct benefit to the cost center being charged.

In general, a cost is allocable to a particular cost center if it fulfills one of the following conditions:

1. It is incurred solely to advance the work under the sponsored agreement; or
2. It benefits both the sponsored agreement and other work of the hospital, in proportions that can be approximated through use of reasonable methods; or
3. It is necessary to the overall operation of the hospital and, in light of the principles provided in 45 CFR Part 74 Appendix E, is deemed to be assignable in part to cost centers.

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should 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 benefited projects on any reasonable basis.

Note: Reasonable methods of allocating common use scientific items and supplies may include proportional benefit, specific anticipated use per award, FTEs on each award, lab square footage, high correlation to another lab cost that is clearly allocated, and MTDC proportions.

In the rare instances in which a proper cost allocation cannot ultimately be determined using any reasonable methods, the cost may be charged to a single cost center.

Where the purchase of equipment or other capital items is specifically authorized (Note: "authorized" means approved by the sponsor) under a sponsored agreement, the amounts thus authorized for such purchases are assignable to the sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved.

Any costs allocable to a particular sponsored agreement under the standards provided in 45 CFR Part 74 Appendix E may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

Any costs allocable to activities sponsored by industry, foreign governments, or other sponsors may not be shifted to federally sponsored agreements.

Allowable Costs: All costs must be allowable under federal regulations and sponsor terms and conditions, including program-specific requirements and Children's policy. To be allowable, costs must:

1. Be reasonable and necessary;
2. Be allocable to the federally sponsored project under the principles and methods provided in 45 CFR Part 74 Appendix E, section C & D;
3. Be given consistent treatment; and
4. Conform to any limits or exclusions set forth in 45 CFR Part 74 Appendix E, section C & D or the terms and conditions of the award.

Direct Costs are expenses that are specifically associated with a particular cost center that can be directly assigned to such activities relatively easily with a high degree of accuracy. Common examples of direct costs include the Principal Investigator's salary and fringe benefits, technical equipment, animal care costs, subcontract costs, travel, or other materials consumed or expended in the performance of the research project.

Indirect Costs, also called Facilities and Administrative Costs (**F&A Costs**), are incurred for common or joint objectives and, therefore, cannot be readily and specifically identified with a particular project or activity. They are expenses that benefit more than one activity.

Common examples of indirect costs include utilities, local telephone charges, shared office supplies, general administrative or secretarial salaries, etc.

Office of Management of Budget's (OMB) Circular A-21: "The Cost Principles for Educational Institutions" is a secondary resource or for clarity regarding allowable costs on sponsored awards. Please refer to at the following web address:
<http://www.whitehouse.gov/omb/circulars/index.html>.

Reasonable Costs: 45 CFR Part 74 Appendix E defines a cost as reasonable if the nature of the goods or services acquired or applied, and the amount involved, reflect the action that a *prudent person* would have taken under the prevailing circumstances when the decision to incur the cost was made.

Major considerations involved in the determination of the reasonableness of a cost are:

1. Is the cost of a type generally recognized as necessary for the operation of the hospital or the performance of the research agreement?
2. Have the restraints or requirements imposed by such factors as federal and state laws and regulations, research agreement terms and conditions, and arm's-length bargaining been satisfied?
3. Have the individuals concerned acted with due prudence in the circumstances, considering their responsibilities of the hospital, its employees, its students, the government, and the public at large?
4. Is the extent of the actions taken with respect to the incurrence of the costs (e.g., hiring decision, choice of goods or services, determination of salary or price, vendor selection, etc.) consistent with established hospital policies and practices applicable to the work of the hospital generally, including government research?

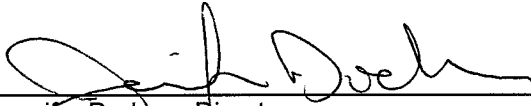
Approved by:



Patrick Bassett, Director
Office of Research Finance
Seattle Children's Hospital Research Institute

Date

12/26/07



Jennifer Dodson, Director
Office of Sponsored Research
Seattle Children's Hospital Research Institute

Date

12/26/07