

PENSACOLA STATE COLLEGE
MANUAL OF PROCEDURES

Procedure Title:	Cost Principles for Federal Grants	<u>Number</u> 547
Related Policy:	Grant Administration – 6Hx20-5.015	<u>Page</u> Page 1 of 4

I. Purpose

To protect the government’s financial interests from the impact of estimating and accounting inconsistencies and the effects of other undesirable accounting practices.

II. Procedure


- A. All colleges receiving federal funds must comply with cost accounting standards that are incorporated into 2 CFR 200, Subpart E – Cost Principles with the following exceptions:
1. When there is an arrangement under which federal financing is in the forms of loans, scholarships, fellowships, traineeships, or other fixed amounts based on such items as education allowance or published tuition rates and fees.
 2. When capitation awards, which are awards based on case counts or number of beneficiaries according to the terms and conditions of the federal award.
 3. When federal funds come thru fixed amount awards or grant agreements or contracts.
 4. When any award of federal funds is not required to account to the Federal government for actual costs incurred.
- B. Grant costs should be reviewed to determine that they are allowable, allocable, reasonable, and necessary.
1. An allowable cost is one that meets the criteria for authorized expenditures specified in the cost principles. To meet federal standards for allowability a cost charged to an award must be:
 - a. Necessary and reasonable for proper and efficient performance and administration of the grant or cooperative agreement;
 - b. Conform to any limitations or exclusions set forth in the Cost Principles or the federal award and be allocable thereto under these principles;
 - c. Consistent with the recipient’s policies, procedures, and regulations that apply to both federal awards and other activities of the recipient;
 - d. Treated consistently as a direct or indirect cost;
 - e. Determined in accordance with generally accepted accounting principles (GAAP), except as otherwise stipulated in the applicable cost principles;
 - f. Net of all applicable credits;

6. If treated consistently for all cost objectives, a direct cost of a minor account may be treated as an indirect cost for reasons of practicality.

D. Preparing an indirect cost proposal

1. The College maintains a federally approved indirect cost rate. The College must submit an indirect cost proposal before the end of the term of the College's current indirect rate agreement. The College uses the Indirect Cost Proposal Format – Simplified Method for preparing the indirect cost proposal.
2. The preparation of an indirect cost proposal requires knowledge of the College and its financial statements and systems in addition to knowledge of federal *Uniform Guidance* rules regarding cost principles, allowable and unallowable costs.
3. The following is the recommended procedure to complete an indirect cost proposal:
 - a. Obtain the audit report for the year that is stated in the rate agreement for which the College needs to submit a proposal.
 - b. Obtain the annual financial report electronic files from the Comptroller.
 - c. Review the previous proposal submitted to see the format and obtain the files from the Assistant Comptroller, Restricted Accounting.
 - d. Prepare Schedule 1. This schedule shows the expenditures in the College's financial statements and the reclassification required to recast the data in the financial statements into the classifications needed to compute the indirect cost rate. The costs commonly reclassified are:
 - i. Costs classified as instruction in the financial statements.
 - ii. Academic support costs.
 - iii. Institutional support costs.
 - iv. Indirect cost assigned to auxiliary enterprises in the financial statements.
 - e. Prepare Schedule 2. This schedule shows a number of additional adjustments to the data in the financial statements, the classification of the adjusted costs as direct or indirect, and the computation of the indirect cost rate. The following are additional adjustments:
 - i. Eliminate the Federal share of wages from the College Work Study Program.
 - ii. Eliminate capital expenditures and other unallowable costs.
 - iii. Eliminate operation and maintenance expenses attributable to other institutional activities.
 - iv. Eliminate depreciation on buildings, equipment and capital improvements used by other institutional activities.
 - f. The indirect cost rate is calculated on this Schedule 2 automatically after the adjustments are made.
 - g. Other information to be submitted include:
 - i. Certificate of F&A Costs
 - ii. A summary schedule of general and admin cost and the detail supporting the summary schedule.

- iii. A copy of the Schedule of Expenditures of Federal Awards (SEFA).
- iv. A copy of the College's financial audit.

Responsible Official: Vice President, Business Affairs	
President's Signature: 	Date: 02/21/2017