



**RATE RECOVERY IN SERVICE
DEPARTMENTS**

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PREFACE

This is a guide for use by WVU departments when developing rates for interdepartmental services. It provides general parameters of rate structure and development concentrating on type of department and customer.

Definitions:

Applicable Credits – Applicable credits include: purchase discounts, rebates, or allowances; recoveries or indemnities on losses; adjustments of overpayment or erroneous charges; discounts; and monies received from the Federal Government to finance operations.

Auxiliary Enterprises - An auxiliary enterprise is essentially a self-supporting entity that exists to furnish goods or services to students, faculty, or staff, and charges a fee directly related to although not necessarily equal to, the cost of the goods or services.

Contra-Object - Object codes specifically designed for the collection of interdepartmental sales.

Cost Center - An account or aggregation of accounts intended to isolate revenue and expenditures of a particular activity.

Departmental Facilities and Administrative Costs - Costs incurred for and contained within a department (academic, research center, or internal service department) that support, but are not directly allocable and attributable to a specific activity. Costs included are unique to the cost center providing the service.

Direct Cost - Costs directly allocable and attributable to the activity being performed. Direct costs are those which can be identified specifically with a particular activity, or can be directly assigned to an activity relatively easily with a high degree of accuracy.

External User – An entity or person for whom West Virginia University has no direct affiliation, and over whom West Virginia University has no fiduciary responsibility.

Facilities and Administrative Costs (F&A Costs) – Facilities and administrative costs (formerly indirect costs) are incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular activity. Examples are operations and maintenance costs, administrative costs, capital equipment depreciation, etc.

Federal Unrecoverable Costs - Costs defined by the federal government as unrecoverable, either as a direct cost or as a facilities and administrative cost to any federal program (see Attachments A and B).

Institutional Facilities and Administrative Costs - Costs incurred by the institution in support of all activities but are not directly allocable and attributable to a specific activity. Departmental facilities and administrative costs are not included.

Interdepartmental Transactions - Transactions between service departments and storerooms and other institutional departments and offices that are recorded as transfers of expenditures.

Internal User – A service department customer over which West Virginia University has fiduciary responsibility.

Other Sources – A revenue category for all Current Fund revenues that are not included elsewhere. This includes revenues derived from the sales and services of service centers to external entities.

Research - Revenues and expenditures for activities specifically organized to produce research outcomes, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution.

Research Center - Revenues and expenditures for research activities that are part of a formal research organization created and approved by the institution to manage a number of research efforts.

Sales and Services of Educational Activities - Revenues derived from the sales of goods or services to external entities that are produced incidental to the conduct of instruction, research, or public service. This includes the sales of goods or services to external entities by an academic department/recharge center.

SERVICE DEPARTMENTS

Service departments provide services that are essential to support the University's instruction, research, or public service function. A service department is an ongoing activity that provides a product or service to other University departments. The revenues from interdepartmental transactions are treated as reductions of expense to the service department. If external sales occur, they are considered incidental. All service departments are required to operate on a breakeven basis. If a surplus or loss is recognized, future rates must be adjusted accordingly. Listed below are the three types of service departments.

Academic Department/Recharge Center

An academic department/recharge center is a department whose primary mission is that of instruction, research, or public service and whose sales/recharge activities are considered incidental to the primary mission. Rates developed for services and sales must be designed to only recover the appropriate approved **direct** costs. F & A costs cannot be included. If external sales occur, they are recognized as "Sales and Services of Educational Activities". An example of this type of activity is a departmental copy recharge center.

Service Center

A service center is an organizational unit whose primary purpose is to provide or distribute goods or services to internal users on a regular and continuing basis. The rates utilized may include the appropriate approved direct and F & A costs less applicable credits. If external sales occur, they are recognized as "Other Sources" of income. An example of this activity is Printing Services.

Specialized Service Facility

A specialized service facility provides an institutional service involving the use of highly complex or specialized facilities that incurs annual expenses of at least \$1 million or generates annual revenues of at least \$1 million. The service or product provided is unique due to its combination of personnel, technology, or hardware, and it is not easily available from an outside vendor. The unit is established to provide or distribute these specialized goods or services on a regular and continuing basis. The rates utilized may include the appropriate approved direct and F & A costs less applicable credits. If external sales occur, they are recognized as "Other Sources" of income. An example of this activity is Animal Quarters.

RATE DEVELOPMENT GUIDELINES

The cost of providing the service or product is charged to users on a "rate" basis. Rates are generally formulated to recover the costs of operations such as salaries, benefits, materials, supplies, etc. A service department may provide several types of activities. The costs associated with these activities should be separately accounted for and charged to users in proportion to services rendered. The cost of each service should be directly billed to users based on a

schedule of rates that does not discriminate between federally and non-federally supported activities.

Academic Department/Recharge Center Rate Development

Academic Department/Recharge Centers can only incorporate direct costs into their rates. These direct costs must be allowable, reasonable, and necessary to the operation of the service. Charges for equipment, administration, and other F & A costs should not be a part of the rates. Any under- or over-recovery must be included in future rate development.

Service Center

The rates developed for sales by service centers must be designed to recover only the allowable portions of cost dependent on the customer. Any under- or over-recovery must be included in future rate development.

Specialized Service Facility

Rates developed for specialized service facilities should include direct costs, departmental F & A costs, and institutional F & A costs. Institutional F & A costs are included because the allocation of institutional F & A costs to a specialized service center is necessary to assure that these costs are assigned to the users of the services rather than to general overhead. The decision to allocate institutional F & A costs to specialized service facilities will also be influenced by the materiality of the allocation, and the cost/benefit of the additional administrative burden. Any under- or over-recovery must be included in future rate development.

Rate Components for Service Departments

Cost Type	Institutional Sales – Academic Departments/Recharge Centers	Institutional Sales – Service Centers	Institutional Sales – Specialized Service Facilities
Direct Cost-Institutionally funded	INCLUDE	INCLUDE	INCLUDE
Direct Cost-Federally funded	EXCLUDE	EXCLUDE	EXCLUDE
Equip Depreciation – Institutionally funded	EXCLUDE	INCLUDE	INCLUDE
Equip Depreciation - Federally funded	EXCLUDE	EXCLUDE	EXCLUDE
Federal Unrecoverable Cost	EXCLUDE	EXCLUDE	EXCLUDE
Departmental F & A Cost	EXCLUDE	INCLUDE	INCLUDE
Institutional F & A Cost	EXCLUDE	EXCLUDE	INCLUDE WITH APPROVAL

External Users

The intention of operating recharge departments at WVU is to facilitate research, instruction or public service. However, some recharge departments may occasionally offer their services to users outside the WVU community. At a minimum, external users should be charged for the full direct costs of the recharge department operation. There are additional charges that may apply to external users including institutional overhead, surcharges, and sales tax. If the department sells to external users, the recharge department could be subject to Unrelated Business Income Tax (UBIT) if the exemption criteria are not met.

Unrelated business income" is defined as gross income derived by an organization, less certain deductions, from an activity which satisfies all of the following criteria:

- the activity must be a trade or business;
- the trade or business must not be substantially related to the organization's exempt purpose; and
- the trade or business must be carried on regularly.

A federal tax is imposed on an organization's unrelated business income; this tax is referred to as the "unrelated business income tax" (i.e., UBIT). Payroll & Tax Services (P&TS) should be consulted regarding any revenue generating activities to determine if the activity will be subject to unrelated business income tax. P&TS can be reached at tax@mail.wvu.edu or 304-293-3379.

SERVICE DEPARTMENT COST COMPONENTS

Below are the various types of costs that can be incurred by a service department and some general guidelines as to whether the costs can be included in the rate development to support activities. Regardless of the type of expense, no federally funded costs may be included in the recharge rates.

Personnel Costs

The salaries and benefits of the service department employees directly involved with the activity of the service department should be included in the rate development. Contact the Financial Affairs and Research Accounting Department for proper fringe rates.

Supplies and Material

The cost of supplies and materials needed to operate the service department should be included in the rate development.

Other Direct Costs

Other types of costs that might be included are special conferences, professional services, communication costs, equipment expenditures under \$1,000, etc. The costs must be directly allocable and related specifically to the service or product provided.

Capital Equipment

Capital equipment is any stand alone item with a cost of \$5,000 or more and has a useful life of one year or more. Service departments that are permitted to include the cost of capital equipment in their rates must keep track of and account for their capital equipment. Although federal guidelines do not allow the purchase cost of a capital item to be included as a direct charge in the rate development, it is appropriate to include the depreciation associated with the item. Contact the Financial Affairs and Research Accounting Department for information about how to calculate depreciation. Recharge departments are not permitted to mark up billing rates to accumulate a reserve for equipment replacement and additions.

F & A Costs

F & A costs **cannot** be included in the rates for academic departments/recharge centers. Departmental F & A costs should be included in the rates for service centers and specialized service facilities. Institutional F & A costs can be included in the rates for specialized service facilities with approval from the Financial Affairs and Research Accounting Department.

Unrecoverable Costs

Unrecoverable costs cannot be charged to federal sponsored agreements, and therefore should not be included in rates for internal users. Examples of unrecoverable costs include alcoholic beverages, alumni activities, bad debts, entertainment costs, etc. A listing of costs that are unrecoverable is included in Attachment A. In addition, further explanations of the recoverability of select items of cost are provided in Attachment B.

Surplus/Deficit from Prior Year(s)

For established centers, include any surplus (over-recovery) or deficit (under-recovery) from the prior year operations.

RATE CALCULATIONS

The rate for service departments is calculated by dividing the total budgeted cost for providing the product or service by the total projected level of activity for the budget period. The total budgeted cost should be derived from the historical costs of the prior fiscal year factored with projected costs for the next fiscal year.

$$\text{Rate} = \frac{\text{Total Budgeted Costs (Plus prior year under-recovery, or Minus Prior year over-recovery)}}{\text{Total Projected Level of Activity for the Budget period}}$$

“Level of Activity” is the total projected volume of work to be performed in a service department, expressed as labor or machine hours, CPU time, or units of products or services to be provided. The unit’s usage recording system should be complete and well controlled. Total units billed should reflect total services rendered and users should be consistently charged for usage. User rates consisting of flat fees that charge per range of actual use such as light, moderate, or heavy use are not allowable.

Volume Discounts

Volume discounts are acceptable if it can be documented that costs savings are realized when a large quantity of a product is provided to an individual user.

Multiple Services/Products

Recharge departments providing multiple services may not subsidize the cost of certain services by charging excessive rates for other services. Consideration should be given to size, complexity, and equity in setting multiple rates for a recharge department.

Subsidized Users

If the recharge department chooses to provide a service to a particular internal group of users at no charge or at a lower rate than other users, the recharge department billing rate must be calculated for all internal users based on total recharge department expenses and total units of output. The portion of the services used by the subsidized user group that are not billed for should be charged to a recharge department account to keep track of these services. When the rates are reviewed annually, these charges that were not billed will have to be included in the rates to calculate the over/under-recovery.

ESTABLISHING A NEW SERVICE DEPARTMENT

A business plan to establish a service department must be submitted to the Budget Planning Committee for review. The Financial Affairs and Research Accounting Department can provide assistance with the development of a business plan to ensure that rates comply with established guidelines. The request must be approved by the departmental business officer and by the Dean/Director of the College/Organization. A sound business plan should include:

- The service department name;
- Description of the services to be provided to customers;
- Listing of potential customers (University departments, federal grants and contracts, external users, etc.);
- Estimated budget of the proposed recharge center;
- Copy of the proposed charge-out rates and the rate calculation;
- Name and phone number of the person responsible for financial administration of the service department; and
- Anticipated start date of the department.

REVIEW AND APPROVAL OF RATES FOR EXISTING SERVICE DEPARTMENT

Annually, each service department with sales greater than \$50,000 must provide the Financial Affairs and Research Accounting Department with a report that relays the following information:

- Financial reports showing reported expenditures and revenues for the year;
- The amount billed to sponsored agreements;
- The total volume of activity for the fiscal year;
- The amount of any over- or under-recovery; and
- The detailed rate schedule and a reconciliation of cost to rates.

The Financial Affairs and Research Accounting Department will review and monitor the billing rates for all service departments with sales greater than \$50,000. At the end of the fiscal year, service departments should submit their calculations to Cost Accounting for review and approval. Judgements will be made as to whether total billings for sales and services are reasonable compared to the costs of operation. The rate calculations will be reviewed to determine if all unallowable costs are being excluded.

Service Departments with sales less than \$50,000 per fiscal year are not required to submit their rates for approval. These small-scale activities, however, are still responsible for proper rate development. The Financial Affairs and Research Accounting Department is available for consultation regarding such activities, and will periodically check with the departments on such known operations. They may also be audited by external or internal auditors.

RECORDS RETENTION

Service departments are subject to audit to determine compliance with the University's Cost Accounting Disclosure Statement and to test the validity of charges to sponsored agreements. Therefore, service department activities must be adequately documented and records maintained to support expenditures, billings, and rate development. Financial records, supporting documents, statistical records, and all of the records pertinent to a service department's activity must be retained for at least seven years, unless a litigation claim or audit is started before the expiration of this period. In these cases, records need to be retained until litigation, claims, or audit findings are resolved.

CONSEQUENCES OF NONCOMPLIANCE WITH RATE DEVELOPMENT GUIDELINES

The correct development of service department rates is important to the University for the following reasons:

- To ensure the fairness of rates charged to **all** users;
- To maintain compliance with West Virginia University's Cost Accounting Disclosure Statement; and
- To regulate charges to sponsored agreements by ensuring that amounts charged are allowable and do not exceed the cost of the service.

Service departments that provide services to sponsored agreements are subject to review by external auditors. External auditors can recommend the disallowance of charges to sponsored agreements. Amounts disallowed because of the failure to comply with proper rate development guidelines will be the responsibility of the Dean/Director of the service department.

Common reasons for disallowances are:

- Inadequate rate documentation,
- Failing to maintain current equipment depreciation schedules,
- Failing to separately identify the expenses included in the calculated user rates from normal departmental expenses,
- Failing to document clearly the products/services provided on bills to users, and
- Failing to identify the user's source of funds at the point of purchase.

Any questions regarding these guidelines can be directed to the Financial Affairs and Research Accounting Department at 293-4002.

Attachment A Examples

Example 1: Academic Department/Recharge center.

The Department of Biology operates a copy machine for which they want to develop rates to use on the many different projects they support.

Operating expenses projected for next fiscal year:

Lease of copier	\$8,500
Maintenance agreement	4,400
Paper	2,250
Toner	<u>600</u>
Total Costs	\$15,750

Over-recovery from prior year *	<u>(550)</u>
Total Costs to be recovered	\$15,200

Total estimated copies for next fiscal year:	285,000 (includes 5,000 copies provided free of charge to the Biology club student organization)
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Rate calculation:

$$\text{Total Costs/Total Copies} = \$15,200/285,000 = \$0.0533/\text{copy}$$

* Over-recovery is determined by comparing the total revenues generated by the activity for the period compared to the total actual costs of the activity. If the revenues are more than the actual costs, this over-recovery is subtracted from future costs in rate calculations. If the actual costs are more than the revenues, this under-recovery is added to future costs in rate calculations.

Example 2: Service Center

The Printing Services service center is calculating the rates to produce colored flyers.

Operating expenses projected:

Staff person A ((\$30,000 salary/1,950 hours/year)*520 hours/year) **	\$ 8,000
Staff person B ((\$35,000 salary/1,950 hours/year)*416 hours/year) **	7,467
Administrative support ((\$25,000 salary/1,950 hours/yr)*364 hours/year)**	4,667
Director support ((\$60,000 salary*20% effort over the year)**	12,000
Fringes (actual fringes multiplied by % of effort for staffing above)	8,676
Printing supplies	34,876
Telephone	2,000
Equipment repair and maintenance	1,545
Depreciation on printing equipment (see depreciation schedule)***	<u>7,125</u>
Total Projected Costs	\$86,356
Under-recovery from prior year *	<u>2,011</u>
Total Costs to be recovered	\$88,367

Total estimated flyers (pages) for next fiscal year:	40,000
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Rate calculation:

Total Costs/Total pages of flyers = \$88,367/40,000 = \$2.21/page of flyer

* Over/Under-recovery is determined by comparing the total revenues generated by the activity for the period compared to the total actual costs of the activity. If the revenues are more than the actual costs, this over-recovery is subtracted from future costs in rate calculations. If the actual costs are more than the revenues, this under-recovery is added to future costs in rate calculations.

** Service Centers that support more than one type of product/activity should allocate personal service charges using the most accurate approach available either by using actual work hours or percentage of effort devoted to a specific product or activity.

*** Details about the depreciation for capitalized items may be obtained from the Cost Accounting unit. An example of a depreciation schedule is as follows:

Depreciation Schedule

Tag Number	Date Acquired	Useful Life	Original Cost	Annual Depreciation	% of activity to specified product (if item supports more than one product/activity)	Annual Depreciation to be applied to the product/activity
OC76590	8/21/99	9	\$54,450	6,050	50%	\$3,025
OC89509	5/26/02	5	\$11,000	2,200	100%	\$2,200
OC45981	3/11/04	3	\$ 5,700	1,900	100%	\$1,900

Attachment B

UNRECOVERABLE EXPENSES ACCORDING TO THE OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-21

ALCOHOLIC BEVERAGES – Costs of alcoholic beverages are unrecoverable.

ALUMNI ACTIVITIES – Costs for, or in support of, alumni activities and other similar services are unrecoverable.

BAD DEBTS – Any losses, whether actual or estimated, arising from un-collectible accounts and other claims are unrecoverable, including any related collection and legal costs.

CONTINGENCY PROVISIONS – Contributions to a contingency reserve or any similar provision made for events, the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening are unrecoverable.

ENTERTAINMENT COSTS – The following entertainment costs are unrecoverable: Amusement, Social Activities, Entertainment Related items; meals, lodging, rentals, transportation, tickets to shows or sports events, gratuities.

EXECUTIVE LOBBYING COSTS – Costs incurred in attempting to improperly influence an employee or officer of the executive branch of the federal government to give consideration or act regarding a sponsored agreement or a regulatory matter are unrecoverable.

FINES AND PENALTIES – Costs resulting from violations of, or failure to comply with, federal, state, and local or foreign laws/regulations except when incurred as a result of compliance with the terms of sponsored agreement or instructions in writing from a contracting officer or equivalent, are unrecoverable.

HOUSING AND PERSONAL LIVING EXPENSES – The following housing allowances and personal living expenses for/of the institution's officers (current or past officers) are unrecoverable; depreciation, maintenance, utilities, furnishings, rent, other similar expenses.

PROFITS/LOSSES OF DISPOSITION OF PLANT EQUIPMENT OR OTHER CAPITAL ASSETS – Profits or losses from the sale/exchange of plant, facilities, equipment or other capital assets, including short or long-term investments, are unrecoverable. When assets acquired with federal funds, in part or wholly, are disposed of, the distribution of the proceeds will be made in accordance with A-110.

SELLING AND MARKETING COSTS – Costs of selling or marketing products or services of the institution are unrecoverable.

SPECIAL SERVICES COSTS – General public relations, alumni activities, and similar services are unrecoverable.

STUDENT ACTIVITY COSTS – Intramural activities, student publications, student clubs, and other student activities are unrecoverable unless specifically provided for in sponsored agreements.

Attachment C

EXPLANATIONS OF THE RECOVERABILITY/UNRECOVERABILITY OF CERTAIN ITEMS OF COST ACCORDING TO THE OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-21

ADVERTISING AND PUBLIC RELATIONS COSTS

Advertising Costs – includes magazines, newspapers, radio and television programs, direct mail, exhibits, and the like.

Public Relations Costs - includes community relations. Also includes any activities to maintain the image of the institution or to maintain or promote understanding and favorable relations with the community or public at large.

Recoverable Advertising Costs:

1. Recruiting of personnel required for the performance by the institution of obligations under sponsored agreements;
2. The procurement of goods and services for the performance of activities; and
3. The disposal of scrap or surplus materials acquired in the performance of activities except when the institution is reimbursed for disposal costs.

Recoverable Public Relations Costs:

1. Costs of communicating with the public or press about the activities or accomplishments resulting from the performance of sponsored agreements;
2. Costs required by the sponsored agreement; and
3. Costs of communicating general liaison with the news media or governmental relations officers, such as notices of contracts/grant awards and financial matters.

Unrecoverable Advertising and Public Relations Costs:

1. Costs of special events, such as conventions or trade shows – also includes:
 - a. Costs of displays, demonstrations, and exhibits;
 - b. Costs of meeting rooms, hospitality suites, and other special facilities;
 - c. Salaries and wages of employees setting up and displaying exhibits, making demonstrations, and providing briefings.
2. Costs of promotional items and memorabilia, including models, gifts, and souvenirs;
3. Costs designed solely to promote the institution.

CIVIL DEFENSE COSTS

Recoverable Costs:

1. Reasonable costs of civil defense measures, undertaken on institution's premises pursuant to suggestion/requirements of civil defense authorities, including:
 - a. Excessive plant protection;
 - b. First-aid training and supplies;
 - c. Firefighting training; and
 - d. Costs of posting additional exit notices and directions.
2. Other approved civil defense measures.

Unrecoverable Costs:

1. Capital expenditures (Use allowance allowable);
2. Local civil defense projects not on institution's premises.

COMMENCEMENT AND CONVOCAATION COSTS – Recoverable only as part of indirect costs (Student Administration and Services).

GOODS OR SERVICES FOR PERSONAL USE – Costs of goods and services for personal use of the institution's employees are unrecoverable.

DEFENSE AND PROSECUTION OF CRIMINAL AND CIVIL PROCEEDINGS, CLAIMS, APPEALS, AND PATENT INFRINGEMENT – Conviction means a judgement or conviction of a criminal offense by any competent court jurisdiction. Includes costs such as administrative and clerical expenses, legal services, accountants, consultants, compensation related costs and expenses of employees, officers, and trustees, and any similar costs incurred before, during, and after proceedings.

Fraud, as used herein, mean acts of fraud or deception or corruption or attempts to defraud the Federal Government or to corrupt its agents, acts that constitute debarment or suspension, and acts which violate the False Claim Act or Anti-Kickback Act.

Penalty does not include restitution, reimbursement, or compensatory damages. Proceeding includes an investigation.

Any criminal, civil, or administrative proceeding commenced by the Federal Government, or a State, local or foreign government, are unrecoverable if:

1. It relates to a violation of, or failure to comply with, a Federal, State, local or foreign statute or regulation by the institution.
2. It results in the following dispositions:
 - In a criminal proceeding conviction;
 - In a civil or administrative proceeding involving an allegation of fraud or similar misconduct, a determination of institutional liability;
 - In the case of any civil or administrative proceeding, the imposition of a monetary penalty;
 - In a final decision by an appropriate Federal official to debar or suspend the institution, to rescind or void an award, or to terminate an award for default by reason of a violation or failure to comply with a law or regulation.

If a proceeding referred to in the previous paragraph is commenced by the Federal Government and is resolved by consent or compromise pursuant to an agreement entered into by the institution and the Federal Government, the costs are allowed to the extent specifically provided in such agreement.

If a proceeding is commenced by a State, local or foreign government, the authorized official of the sponsoring agency may allow the costs incurred for such proceedings, in accordance with agency procedures, provided that the costs were incurred as a result of compliance with:

1. Scope of work, specific terms and conditions, or other terms of the sponsored agreement; or
2. Specific written direction of an authorized official of the sponsoring agency.

Costs incurred which are recoverable by the sponsoring agency must meet the following qualifications:

1. Total costs incurred are reasonable in relation to the activities required to deal with the proceeding and underlying cause of action;
2. Payment of costs insured are not prohibited by any other provision(s) of the sponsored agreement;
3. The costs are not recovered from the Federal Government or third party; and

4. Total costs allowed do not exceed 80 percent of the total costs incurred and otherwise allowable under the sponsored agreement. This percentage shall not exceed the percentage amount determined by an authorized official of the sponsoring agency.

Costs incurred by the institution with defense suits brought by its employees or ex-employees, including the cost of all relief necessary to make such employee whole, where the institution was found liable or settled, are unrecoverable.

Costs of legal, accounting, and consultant services, and related costs, with defense against Federal Government claims or appeals, or the prosecution of claims or appeals against the Federal Government, are unrecoverable, unless provided for in the sponsored agreement.

In appropriate circumstances, the sponsoring agency may provide for conditional payment upon provision of adequate security, or other adequate assurance, and agreements by the awardee to repay all unrecoverable costs, plus interest, if the costs are subsequently determined to be unrecoverable.

DEPRECIATION – Costs for buildings, capital improvements, and equipment are unrecoverable, except for the depreciation that may be taken provided the asset is used, needed, and allocable to the activity.

Computation should be based on acquisition cost, but should exclude:

1. Cost of land;
2. Cost borne or donated by the federal government; and
3. Any portion of cost contributed by or the institution where law and agreement prohibit recovery.

For assets donated by a third party, its fair market value at the time of the donation is considered the acquisition cost.

DONATIONS AND CONTRIBUTIONS – Value of donations to the institution are unrecoverable with the exception of use allowance charges on donated capital assets. Value of donated services/assets may be used as cost sharing. Donations or contributions made by the institution, regardless of the recipient, are unrecoverable.

FRINGE BENEFITS-

Recoverable:

1. Annual, sick, military leave, etc;
2. Social security, worker's compensation, tuition/tuition remission for employee, etc;
3. Pension costs; and
4. Premiums for termination insurance pursuant to ERISA.

INSURANCE AND INDEMNIFICATION – Costs of insurance required or approved, and maintained, pursuant to a sponsored agreement, are recoverable. Costs of other insurance (for general conduct) are recoverable with the following limitations:

1. Types, extent and cost of coverage must be in accordance with sound institutional practice; and
2. Costs of insurance, or of any contributions to any reserve covering the risk of loss or damage to government-owned property, are unrecoverable unless the government has required or approved such costs.

Contributions to a reserve for a self-insurance program are recoverable, to extent and types of coverage, rates and premiums, would have been recoverable had insurance been purchased to cover the risks.

Actual losses which could have been covered by permissible insurance are unrecoverable. Costs incurred because of losses not covered under existing deductible clauses for coverage provided in keeping with sound management practice, as well as minor losses not covered by insurance, such as spoilage, breakage, and disappearance of small hand tools, which occur in the ordinary course of operation, are recoverable.

Indemnification includes securing the institution against liabilities to third persons and other losses not compensated by insurance or otherwise. The federal government is obligated to indemnify the institution only to the extent expressly provided for in the sponsored agreement, if applicable.

INTEREST, FUND RAISING, AND INVESTMENT MANAGEMENT COSTS – Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are unrecoverable.

Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unrecoverable.

Costs related to the physical custody and control of monies and securities are recoverable.

Costs incurred for interest borrowed capital or temporary use of endowment funds, however represented is generally unrecoverable. Interest paid to an external party is recoverable if it is associated with the following assets and the total cost (use allowances, operation and maintenance costs, and interest) does not exceed the rental cost of comparable assets.

- Buildings acquired/completed after July 1, 1982;
- Major construction/remodeling of existing buildings completed on/after July 1, 1982; or
- Acquisition/fabrication of capital equipment completed after July 1, 1982, costing \$10,000 or more, if agreed to by the government.

MEMBERSHIPS, SUBSCRIPTIONS, AND PROFESSIONAL ACTIVITY COSTS – The following types of costs are recoverable:

1. Costs of the institution's membership in business, technical, and professional organizations;
2. Costs of the institution's subscriptions to business, professional, and technical periodicals; and
3. Costs of meetings and conferences, when the primary purpose is the dissemination of technical information;

The following types of costs are unrecoverable:

1. Costs of memberships in any civic or community organization; and
2. Costs of membership in any country club or social or dining club or organization.

PROFESSIONAL SERVICES COSTS – Costs of services of non-employees of the institution are recoverable when reasonable and not contingent on recovery of costs from the government. Retainer fees must be supported by evidence of services rendered.

Recoverability factors:

1. Past pattern of such costs;
2. Nature/scope of managerial services expected of the institutional organizations; and
3. Whether the proportion of government work to total activity influences decision to incur costs, particularly where services rendered are not of a continuing nature and have little relationship to work under sponsored agreements.

RECRUITING COSTS – Provided that the size of the staff recruited and maintained is consistent with workload requirements, costs of “help wanted” advertising, aptitude/educational testing, travel costs of recruiting personnel, and relocation costs incurred incident to the recruitment of a new employee are recoverable if they are reasonable and conform to normal institutional practice.

SEVERANCE PAY – Severance pay is generally a recoverable cost. Costs incurred in excess of the institution’s normal severance pay policy applicable to all persons employed by the institution upon termination of employment are unrecoverable.

TRAVEL COSTS – Travel costs exceeding standard commercial airfares are unrecoverable except when travel:

1. Requires circuitous routing;
2. Requires travel during unreasonable hours;
3. Greatly increases the duration of the flight;
4. Results in additional costs; or
5. Offers accommodations not reasonably adequate for medical needs.

Costs of travel by institution owned, leased, or chartered aircraft shall not exceed recoverable commercial air travel. This includes the cost of lease, charter operation (including personnel costs), maintenance, depreciation, insurance, and other related costs. Costs of personnel movements of a special/mass nature are recoverable only when authorized in writing by the sponsoring agency or its authorized representative. Foreign travel costs are recoverable only with specific prior approval.