

Costs and Cost Accounting

Updated – July 2022

1. PURPOSE

The purpose of this Policy is to establish standards and guidelines for the treatment of costs and the cost accounting for Awards and Contracts, as defined below. For purposes of this Policy, unless stated otherwise, use of the term Award includes Subawards and Award Subcontracts, and the term Contract includes Subcontracts.

2. TERMS AND DEFINITIONS

The following terms shall have the meanings indicated below for purposes of this Policy, regardless of whether the terms are capitalized:

- Administrative Personnel - Personnel providing non-technical support that benefit LAU activities or objectives, generally. For example, although not an exclusive list, non-technical support includes clerical support, accounting and financial management functions, and personnel management.
- Agreements Officer – The individual designated as such by the Awarding Agency. This individual is the Government or donor’s official authorized to execute and modify Awards on behalf of the Awarding Agency. This individual may also be referred to as the Grants Officer. The terms may be used interchangeably.
- Award – sponsored awards including illustratively U.S. grants, cooperative agreements, and any other financial assistance from an Awarding Agency. U.S. Federal agreements are subject to [2 CFR Part 200](#).
- Award Subcontract – A subcontract issued under an Award strictly for the purchase of property or services needed to carry out the performance of the Award. This term does not include an agreement that qualifies as a Subaward (i.e., an agreement to actually carry out part of the Award scope of work). See “Procurements, Subawards, and Subrecipient Monitoring” Policy for further explanation of the differences between a Subaward and an Award Subcontract.
- Award Subcontractor – A recipient of an Award Subcontract.
- Awardee – The recipient of an Award directly from an Awarding Agency.
- Awarding Agency - The department or agency that solicits and enters into an Award or a Contract.
- Contract, including FAR ones, – Any contract awarded to LAU by an Awarding Agency for the acquisition of goods or services and that is subject to the general acquisition regulations of the awarding agency, such as the FAR in the case of U.S. Federal contracts.
- Contracting Officer or CO – The individual designated as such by the Awarding Agency. The Contracting Officer is the official authorized to execute and modify Contracts on behalf of the Awarding Agency. U.S. Federal contract follow the Federal Acquisition Regulations (FAR).

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- Cost – As further defined in Section 4 below, the term includes all costs incurred in connection with an Award or Contract, charged directly or indirectly to an Award or Contract, and/or which LAU claims as part of a Cost Share for an Award.
- Cost Objective - as defined in applicable regulations, is a program, function, activity, award, organizational subdivision, contract, or work unit for which Cost data are desired or required and for which LAU takes steps to accumulate and measure the cost of processes, products, jobs, capital projects, etc. A Cost objective may be a major function of LAU, a particular service or project, an Award, a Contract, or an indirect cost activity.
- Cost Principles - As defined in Section 5 below. For purposes of this Policy, they are requirements that govern the treatment and accounting of Costs related to Awards and Contracts.
- Cost Share or Cost Sharing – Some Awards are cost sharing Awards, which means LAU will only be paid or reimbursed an agreed-upon portion of its costs to perform the Award. The portion not paid with the awarding agency funds is the Cost Share.
- Direct Cost – Any cost that can be specifically and accurately identified with a particular Award, Contract, or other cost objective. Typical examples of Direct Costs include, but are not limited to certain salaries and independent contractor costs.
- Federal Acquisition Regulation or “FAR” – The regulations in Title 48 of the Code of Federal Regulations implementing uniform policies and procedures for acquisitions by Government executive agencies.
- Final Cost Objective - A cost objective which has allocated to it both direct and indirect costs and is one of the final accumulation points for costs in the cost system, such as a particular Award, internal project, or other cost objective.
- Government – The Federal government of the United States of America.
- Grants Officer – See definition of Agreements Officer above. The terms Grants Officer and Agreements Officer are interchangeable.
- Indirect Cost – Costs that are incurred for and benefit multiple cost objectives and cannot be readily identified with a specific Award or Contract. Examples of Indirect Costs include, but are not limited to, facilities and administrative costs and depreciation. Indirect costs are distributed to cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. They are accumulated and allocated to one or more indirect cost pools or intermediate cost objectives.
- Institutional Base Salary or “IBS” - The annual compensation paid by LAU for a faculty/staff member’s employment or appointment, whether that individual's time is spent on research, instruction, administration, or other activities. IBS excludes any income that an individual earns outside of duties performed for LAU or as Extra Service Pay, as defined in the Personnel Policy – Faculty Section – Institutional Base Salary Supplement.
- Intermediate Cost Objective - A cost objective that is used to accumulate indirect costs or service center costs that are subsequently allocated to one or more indirect cost pools or final cost objectives.

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- LAU –refers to Lebanese American University.
- Prime Contractor – The recipient of a Contract directly from an Awarding Agency.
- Sponsored Program – A program funded at least in part with an Award or Subaward.
- Subaward – An agreement issued under an Award by the Awardee to a Subawardee, or made from one Subawardee to another, to carry out part of the performance of an Award. It does not include an agreement by which an Awardee or Subawardee merely purchases property or services needed to carry out the Award. See “Procurements, Subawards, and Subrecipient Monitoring” Policy for further explanation of the differences between a Subaward and an Award Subcontract.
- Subawardee or Subrecipient – Recipient of a Subaward.
- Subcontract – A subcontract issued under a Contract for the purchase of property or services needed to carry out the performance of a Contract.
- Uniform Requirements – the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award at [2 CFR Part 200, as supplemented by applicable agency supplements, including, for example, 2 CFR Parts 600 \(Department of State\) and 700 \(USAID\)](#).

3. RESPONSIBILITY

- 3.1 It is the responsibility of LAU and its departments, faculty, staff and all individuals working on sponsored programs to fully comply with this Policy. It is imperative that each person with such responsibility reviews, understands, and complies with this Policy. Violations may result in severe consequences to LAU and all individual violators.
- 3.2 Finance, in coordination with the Office of Grants and Contracts, is responsible for the maintenance and general oversight of the Policy in particular:
- 3.2.1 Working with Human Resources to properly educate all LAU faculty, staff, and all individuals working on sponsored programs; and
 - 3.2.2 Updating the Policy as necessary to address changes in applicable Awards, Contracts, and/or regulations;
- 3.3 All questions concerning this Policy should be directed, as applicable, to either:
- 3.3.1 Direct supervisor,
 - 3.3.2 Office of Grants and Contracts,
 - 3.3.3 Finance Department.

4. SCOPE / APPLICABILITY

- 4.1 This Policy applies to and governs the following Award and Contract costs (“Costs”):
- 4.1.1 All costs incurred in connection with an Award or Contract;

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- 4.1.2 All costs charged directly or indirectly to an Award or Contract;
- 4.1.3 All costs that LAU claims as part of a Cost Share for an Award.
- 4.2 This Policy should be viewed as a supplement to LAU's other policies, which can be found at <http://www.lau.edu.lb/about/governance-policies/policies/>. Implementation of this Policy is intended to ensure that the LAU's performance of its Awards and Contracts fully complies with all applicable terms, conditions, and regulations.

5. STATEMENT OF POLICY

- 5.1 Having the U.S. Federal Government as the largest donor, and being an American registered 501(c)(3) and a U.S. chartered university, LAU must comply with the U.S. statutes and regulations that govern the treatment and accounting of Costs related to Awards and Contracts. These laws are often called the applicable cost principles ("Cost Principles"). For example, there are laws and standards in the Cost Principles that specifically identify which Costs may be charged to an Award (such as those defined in [2 CFR 200.400 et seq.](#)) or illustratively for FAR Contracts under ([FAR Part 31](#)) for the payment or reimbursement by the Government.
- 5.2 Furthermore, in case of managing sponsored awards funded by donors other than U.S. ones, than the strictest rules of cost principles apply.

6. COST PRINCIPLES

6.1 Determining Allowability

Costs must be allowable in order to be charged to an Award or Contract. In order to be allowable, the costs must meet the following criteria:

- Costs must comply with the applicable cost principles.
- Costs must be necessary and reasonable for the performance of the Award or Contract and be must allocable to the Award or Contract, as described below.
- Costs must conform to any limitations or exclusions set forth in the applicable Cost Principles or in the Award or Contract as to types or amount of cost items.
- Costs must be consistent with policies and procedures that apply uniformly to all cost objectives. Costs must be given consistent treatment. A cost may not be assigned as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated as an indirect cost.
- Costs must be determined in accordance with appropriate accounting principles.
- The same costs may not be charged to multiple Awards or Contracts, including as cost share, to ensure that LAU does not double charge any cost.
- All costs must be adequately documented.
- The applicable cost principles provide instruction with respect to the allowability of specific costs. Please consult the applicable regulations, this

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Policy, and the attached Procedures as a starting point for any allowability determination. In case of a discrepancy between the provisions of a specific Award or Contract and the provisions below, the Award or Contract governs, respectively.

6.2 Determining Allocability

- A cost is allocable to a cost objective, such as an Award, if it provides an assignable benefit to the cost objective. This means that the cost: (i) is incurred specifically for the Award; (ii) benefits both the Award and other work of the University and can be distributed in proportions that may be approximated using reasonable methods; and (iii) is necessary to the overall operation of the University and is assignable in part to the Award in accordance with this policy and applicable laws.
- For direct Costs this means that the Costs, or a portion of the Costs, are incurred specifically for the Award or Contract. An example of this would be salary or wages for labor performing the Award or Contract, or if LAU has written sponsor approval to purchase and directly charge a piece of equipment necessary and specifically for the performance of an Award or Contract.
- Costs must be allocated based on the proportional benefit to the Award or Contract. If a cost benefits two or more cost objectives in proportions that can be determined without undue effort or cost, the cost must be allocated based on the proportional benefit. Where the purchase of equipment or other capital asset is specifically authorized under an Award, the costs are assignable to the Award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required.
- If a Cost benefits two or more cost objectives in proportions that cannot be determined because of the interrelationship of the work involved, then, the Costs must be allocated on a reasonable and documented basis. For indirect Costs (i.e., F&A) this means that the Costs are necessary to the overall operations of LAU, rather than specifically for an Award or Contract, or are otherwise not readily assignable to the cost objectives benefitted, and the Costs there must be pooled and distributed to benefitted cost objectives on bases that produce an equitable result in consideration of the relative benefits derived. The indirect (F&A) cost rates are set through periodic negotiations with the Government. LAU must apply the negotiated indirect rate, as applicable and as per agreed upon agreement with the Federal Government and use the appropriate base and rate only.
- All cost objectives that benefit from the University's indirect (F&A) cost, including unallowable activities and cost-share, must receive an appropriate allocation of indirect costs.
- Any cost allocable to a particular Award may not be charged to other Awards or Contracts to overcome fund deficiencies, to avoid restrictions imposed by

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awarding agencies' statutes, regulations, or terms and conditions of the awards, or for other reasons.

6.3 Determining Reasonableness

A cost must be necessary and reasonable for the performance of the Award or Contract. Whether a Cost is reasonable or not is based on whether a prudent person would have incurred the Cost under the circumstances at that time.

A cost is reasonable if, in its nature and 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 cost.

In determining reasonableness of a given cost, consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the University or the proper and efficient performance of the Award.
- The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; U.S. Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Award.
- Market prices for comparable goods or services for the geographic area.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the University, its employees, its students, the public at large, and the awarding agency.
- Whether the University significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Award's cost.

6.4 Ensuring Consistency

- All costs must be treated in the same manner under similar circumstances.
- Any direct cost of minor amount may be treated as an indirect (F&A) cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all sponsored (particularly Federal) and non-sponsored cost objectives.

7. TREATMENT OF COMPENSATION FOR PERSONAL AND ADMINISTRATIVE SERVICES

7.1 Compensation for personal services often comprises a large portion of the Direct Costs charged to an Award or Contract and requires specific mention and instruction.

7.2 Similar to Costs charged to an Award or Contract, compensation for personal services, including all remuneration for services of personal services rendered during the period of performance under an Award or Contract, must be allowable

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pursuant to this Policy and the applicable Cost Principles. Further, compensation for personal services is allowable only if the total compensation for an individual employee:

- 7.2.1 Is reasonable for the services rendered and conforms to this Policy and consistently applies to all activities; and
- 7.2.2 Is determined and supported by the requirements set forth in and required by the Timekeeping Policy, when applicable.
- 7.3 Assuming they are otherwise allowable, administrative personnel salaries should be treated as Indirect Costs, unless they meet all of the following criteria:
 - 7.3.1 The services are integral to an Award or Contract project or activity;
 - 7.3.2 The services and personnel can be identified and allocated to a specific Award or Contract; and
 - 7.3.3 The Costs associated with the services are explicitly included in the budget or have the prior written approval of the Awarding Agency as Direct Costs.
 - 7.3.4 The Costs are not also recovered as indirect costs.
- 7.4 Because LAU is an Institution of Higher Education (“IHE”) charges to Awards may include reasonable amounts for activities that contribute to and are directly related to work under an Award, such as delivering special lectures about specific aspects of the ongoing activity, writing reports and articles, developing and maintaining protocols (human, animals, etc.), managing substances/chemicals, managing and securing project-specific data, coordinating research subjects, participating in appropriate seminars, consulting with colleagues and graduate students, and attending meetings and conferences.
- 7.5 Incidental activities for which supplemental compensation is allowable under LAU policy, at a rate not to exceed Institutional Base Salary, need not be included in the Cost records to directly charge payments of incidental activities, such activities must either be specifically provided for in the Award budget or receive prior written approval by the Awarding Agency.
- 7.6 Charges for work performed on Awards by faculty members during the academic year are allowable at the IBS rate. Charges will not exceed the proportionate share of IBS unless approved by the sponsor Agreement officer in writing. This principle applies to all members of faculty.
- 7.7 Intra-IHE consulting by faculty is assumed to be undertaken as an IHE obligation requiring no compensation in addition to IBS. However, in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the faculty member is in addition to his or her regular responsibilities, any charges for such work representing additional compensation above IBS are allowable provided that such consulting arrangements are specifically provided for in the Award or approved in writing by the Awarding Agency.
- 7.8 Extra Service Pay normally represents overload compensation, subject to institutional compensation policies for services above and beyond IBS. Where extra

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service pay is a result of Intra-IHE consulting, it is subject to the same requirements of the paragraph above. It is allowable if all of the following conditions are met:

- 7.8.1 LAU has consistent written policies which apply uniformly to all faculty members, not just those working on Awards.
- 7.8.2 LAU has a consistent written definition of work covered by IBS which is specific enough to determine conclusively when work beyond that level has occurred. This may be described in appointment letters or other documentations.
- 7.8.3 The supplementation amount paid is commensurate with the IBS rate of pay and the amount of additional work performed.
- 7.8.4 The salaries, as supplemented, fall within the salary structure and pay ranges established by LAU.
- 7.8.5 The total salaries charged to Awards or Contracts including extra service pay are properly documented in accordance with timekeeping and cost requirements.
- 7.9 Charges for work performed by faculty members on Awards or Contracts during periods not included in the base salary period will be at a rate not in excess of the IBS. Charges for teaching activities performed by faculty members on Awards during periods not included in IBS period will be based on LAU policies governing compensation to faculty members for teaching assignments during such periods.
- 7.10 Charges for work performed on Awards or Contracts by faculty members having only part-time appointments will be determined at a rate not in excess of that regularly paid for part-time assignments.
- 7.11 Finance, in coordination with the Office of Grants and Contracts, are responsible for ensuring that all cost submissions have been sufficiently reviewed prior to submission to the Awarding Agency to ensure that all unallowable costs have been identified in the financial and accounting system and have been removed from the awarding agency and cost share Award/ Contract charges.
- 7.12 LAU cannot use any of the funds from its Awards for purposes other than those approved by the Award.

8. COST SHARE POLICY

Each Award and Contract solicitation will expressly state whether Cost Sharing is required. If it is not expressly required for the Award, then any commitment from LAU to provide Cost Share is considered voluntarily committed cost share. If the solicitation expressly requires a cost share and/or LAU obtains an Award or Contract with a cost share requirement, then cost share is contractually required and “mandatory.” The Vice President for Finance, or designate, along with the OGC Director, should carefully consider whether to pursue Awards or Contracts with mandatory or voluntary cost share. If cost share is mandatory in the solicitation, LAU will have to decide whether to pursue such cost sharing and submit a proposal, or refrain from submitting a proposal. A Cost Share commitment often can be large and may continue to be binding to a certain extent even if the Award or

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Contract is terminated. If an Award or Contract includes Cost Sharing, the following principles apply:

- 8.1 All Cost Sharing documentation, accounting, and other use must be consistent and in accordance with the applicable Award or Contract and this Policy.
- 8.2 Even though Cost Share will not be paid or reimbursed with awarding agency funds, it still must be allowable pursuant to this Policy and the applicable Cost Principles. This includes keeping complete and accurate documentation on the source, amount, and use of the Cost Share.
- 8.3 In addition to the above, Cost Share:
 - 8.3.1 Must be from a source other than the awarding agency's funds under another Award or Contract, unless expressly approved and authorized by law and the Award or Contract.
 - 8.3.2 Must be valued in accordance with the Award or Contract and the applicable Cost Principles.
 - 8.3.3 Should not include unfunded salary for time and effort that are outside the faculty contractual period
 - 8.3.4 Must be included in the calculation of LAU's indirect costs calculation.
- 8.4 Cost Share from the following sources may be appropriate:
 - 8.4.1 Gifts;
 - 8.4.2 LAU funds from responsible, awarding agency-approved other non-awarding agency sources;
 - 8.4.3 In-kind contributions (e.g., goods or services);
 - 8.4.4 Unrecovered Indirect Costs, but only when expressly approved in the Award or Contract; and
 - 8.4.5 Program income, if expressly authorized in the Award or Contract and allowed to be used by the awarding agency as cost-share. Program income is gross income earned by LAU that is directly generated by or earned as a result of an Award during the period of performance. It can include, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired under Awards, the sale of items fabricated under an Award.
- 8.5 At the proposal stage, if cost share will be mandatory or voluntarily committed, the PI must identify a reasonable and allowable cost share for the proposal. The Vice President for Finance, or designate, along with the OGC Director will review and confirm whether the cost share is allowable and appropriate pursuant to LAU policies.
- 8.6 If an Award with cost share is received, the PI has a continuing obligation to ensure that all cost share commitments are being met in accordance with the terms and schedule of the Award. If the PI becomes aware of a potential complication with meeting the cost share commitment, the PI shall immediately notify the OGC and the Vice President of Finance or designate. No changes to the cost share commitment can be made at the PI level.

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- 8.7 The OGC is responsible to monitoring compliance with cost share commitments and the sufficiency of the documentation. Records must be maintained by the PI and the OGC throughout Award performance and for the proper record retention period evidencing compliance with the cost share commitment.
- 8.8 At Award closeout the OGC and PI shall coordinate to confirm that there are no cost sharing discrepancies and, to the extent there are, resolve them consistent with the Award and applicable regulations.