

ALLOWABLE COST AND COST PRINCIPLES

Policy Statement

The Office of Management and Budget developed the Uniform Guidance (2 CFR, Part 200 Subpart E) to describe the treatment of costs on sponsored project activities (direct and indirect) that can be billed to the federal government. The Uniform Guidance applies to all federally funded projects including federal funding through a non-federal agency. The cost principles also identify those charges that typically cannot be charged to sponsored awards and are considered Unallowable expenses.

The OMB Uniform Guidance (§200.420 through §200.475) lists costs that are Allowable and not Allowable as an expense on a Federal award. Many sponsors have policies that address costs that are Allowable.

Allowable Costs

A cost that is Allowable must also be:

- Necessary and Reasonable for the performance of the award and be Allocable.
- Conform to any award limitations or exclusions.
- Consistent with policies and procedures that apply to both Federal and other non-Federal activities.
- Consistently treated.
- Determined in accordance with generally accepted accounting principles (GAAP).
- Not included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- Adequately documented.

Reasonable Costs

Typical tests to determine if a cost is Reasonable:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state and other laws and regulations; and terms and conditions of the Federal 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 non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.

- Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Allocable

This standard is met if the cost:

- Is incurred specifically for the sponsored project;
- Benefits both the sponsored project and other work of the University and can be distributed in proportions that may be approximated using Reasonable methods; and
- Is necessary to the overall operation of the University and is assignable in part to the sponsored project.

Direct Costs

The salaries of administrative and clerical staff should normally be treated as Indirect (F&A) Costs. Direct charging of these costs may be appropriate only if **all** of the following conditions are met:

- Administrative or clerical services are Integral to a project or activity;
- Individuals involved can be specifically identified with the project or activity;
- Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
- The costs are not also recovered as Indirect Costs.

Materials and supplies used for the performance of a sponsored project may be charged as Direct Costs. In the specific case of Computing Devices, charging as Direct Costs is Allowable for devices that are essential and Allocable, but not solely dedicated, to the performance of a Federal award.

Consistent treatment of costs is required on federal awards. A cost may not be assigned to a Federal award as a Direct Cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an Indirect Cost.

Indirect Costs

Indirect Costs are costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Indirect Costs at higher education institutions are infrastructure costs of the University needed to support the programs of the institution, including research and other sponsored programs. Building depreciation, maintenance costs, the cost of electricity and heat, accounting services, personnel services, departmental administration, purchasing, and human subject administration are examples of Indirect Costs.

Compliance Review of Costs

The PI or their delegate must perform a documented review of costs charged to sponsored projects in a timely manner to ensure allowability of costs in accordance the Uniform Guidance and/or the terms of the specific contract or grant. In addition to the review of costs, a comparison of expenditures with budget amounts must also be perform to verify budget accuracy and determine if a budget revision is necessary.

Unexpected or Extraordinary Circumstances

In unexpected or extraordinary circumstances, a sponsoring agency may direct a normally unallowable cost to be considered a direct cost for a specific program if the inherent purpose of the program requires it. This cost will be considered allowable if it satisfies the requirements for direct costs and is sufficiently documented. All costs charged to grants under these circumstances should be treated consistently, no matter the funding source (Federal or non-Federal).

Unallowable Costs

It is expected that costs will be posted to the correct grant or contract at the time of purchase. However, in the event that an Unallowable cost is discovered and the transfer of a charge is required, the transfer should be made as soon as the need for correction is identified. For payroll correcting entries, departments must make every effort possible to transfer the costs within the fiscal year in which the original transaction occurred.

Cost Share

For all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be Allowable under Subpart E—Cost Principles of the OMB Uniform Guidance.

Definitions

Allocable - a cost incurred specifically for the program, or several activities but can be distributed between them in Reasonable proportion to benefits received, and is clearly necessary to the program.

Allowable - costs directly related to the performance of a sponsored award and permitted under its terms and OMB guidance that must be Reasonable, necessary, Allocable, and treated consistently with generally accepted accounting principles.

Computing Devices - means machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or “peripherals”) for printing, transmitting and receiving, or storing electronic information and acquisition cost of less than \$5,000.

Direct Cost - cost where a specific grant or contract gains explicit benefit from that cost for a specific programmatic purpose. (e.g., salaries, wages, fringe benefits,

consultants, materials and supplies, equipment, travel, participant costs, tuition, and subcontracts).

Indirect Costs/Facilities and Administrative (F&A) - costs incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored award (e.g., depreciation of buildings and equipment, computing infrastructure, administrative services, utilities, and custodial services). Generally, these kinds of costs are identified, pooled, and charged against individual programs or funding sources using a rate designed to recover the costs.

Integral - the nature and purpose of the sponsored program lends itself to these types of personnel being essential in the completion and fulfillment of the stated aims and objectives.

Principal Investigator (PI) - is the holder of an independent grant administered by the University and the primary individual responsible for the preparation, conduct, and administration of a research grant, cooperative agreement, training or public service project, contract, or other sponsored project in compliance with applicable laws and regulations and institutional policy governing the conduct of sponsored research.

Reasonable Costs - 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.

Unallowable - those charges to an award that the sponsor determines to be Unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the grant or contract.