Responsible Executive: Controller
Responsible Department: RSPA
Review Date: May, 2015

Determining Allowability of Costs

This policy has been affected by the federal Uniform Guidance (2 CFR 200) regulations and will be applied consistently to all University awards.

POLICY STATEMENT

The concepts of allowability, allocability, and reasonableness of costs directly address the legitimacy of a cost charged against a specific sponsored research award. Determination of allowability, allocability, and reasonableness of a given expense is based on specific guidelines of the sponsor and federal cost principles.

Allowability, allocability and reasonableness are defined and determined by the Office of Management and Budget ("OMB"), the sponsor's requirements and/or University policy. 2 CFR 200, Subpart E, covers this topic by defining what these areas truly constitute. Each financial transaction charged against a sponsored research award should be evaluated against these three concepts.

Allowability: Expenses charged to a sponsored research award must meet the following allowability criteria:

1. The costs must be treated consistently through application of applicable generally accepted accounting principles appropriate to the circumstances.
2. The costs must conform to any limitations or exclusions set forth in the sponsored agreement or in Federal Cost Principles (2 CFR 200, Subpart E).

Allocability: Once allowability criteria have been met, the cost must be evaluated against the criterion of allocability. That is, has the cost has been incurred solely to support or advance the work of a specific sponsored research award? It also means the process of assigning a cost, or a group of costs, to one or more cost objectives, in realistic proportion to the benefit provided or other equitable relationship. A cost objective may be a major function of the institution, a particular service or project, a sponsored agreement, or overhead (F&A) activity.

Reasonableness: The cost must be able to withstand public scrutiny, i.e. objective individuals not affiliated with the institution would agree that a cost is appropriate on a sponsored research award or as a component in its indirect cost rate.

Once a determination of allowability, allocability and reasonableness has been made, it is important that all grant expenses be charged to the appropriate Banner account code. Budget and expenditure information recorded in the accounting system serves as the basis for: (a) project/account specific planning and reporting; (b) both external and internal audits; (c) the preparation of annual financial statements for the University; (d) Facilities and Administration Cost proposal preparation and rate calculation; and (e) departmental-level planning and reporting and many other uses.

Please use the following as a quick reference guide as it pertains to these topics:

1. For a charge to be allowable, consideration should be given to these items in the following order of precedence (highest to lowest):

a. Terms and conditions of the award
b. Terms and conditions of the program
c. Terms and conditions of the agency
d. Federal cost principles (2 CFR 200.403)

In addition to the guidance offered in the documents listed above, public law and university policy also provide a framework for allowability decisions. On occasion, costs may be allowable to a sponsor, but not allowable under university policy. Therefore, it is imperative to consult with your research administrator on any allowbility concerns.

2. For a charge to be allocable, consideration should be given to:
    a. Consistency
    b. Sound allocation methodology
    c. Appropriate documentation

3. For a charge to be reasonable, consideration should be given to:
    a. Necessity of expenditure
    b. Advancement of scope
    c. Consistency with established institutional policies and practices
    d. The evaluation by prudent individuals during audits

Unallowable Costs on all Federal Awards
Federal regulations identify specific costs and categories of costs that cannot be charged, directly or indirectly to federally sponsored agreements. These costs are never allowed on federally sponsored awards nor can they be charged to funds that will be treated as a part of indirect cost pools. Unallowable costs are generally defined by the federal government in 2 CFR 200, General Provisions for Selected Items of Cost. 2 CFR 200.420-200.475 addresses certain cost categories and defines whether they are allowable as charges on grants.

1. Unallowable Costs include, but are not limited to:
    a. Advertising and public relations
        i. Expenditures to promote the University are not allowable.
        ii. Advertising costs for recruitment of personnel, program outreach and other specific purposes (i.e.human subjects) necessary to meet the requirements of the Federal award are allowable.
    b. Alcoholic beverages
    c. Alumni/ae activities
    d. Bad debts
    e. Commencement or convocation costs
    f. Charitable contributions, donations, remembrances – However the value of donated services may be used to meet cost sharing or matching obligations
    g. Commercial air travel costs in excess of the basic least expensive unrestricted accommodations class offered by commercial airlines
    h. Development/fundraising costs
    i. Entertainment costs: Costs of entertainment, including amusement diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sporting events, meals, lodging, rentals, transportation, and gratuities)
    j. Fines, penalties, damages and other settlements

k. Goods or services for personal use of employees (including gifts)
l. Housing and personal living expenses of University officers
m. Investment management costs
n. Lobbying
o. Losses on other sponsored agreements or contracts (cost overruns)
    i. Any excess of costs over income under any other sponsored agreement or contract of any nature is unallowable. This includes, but is not limited to the institution's contributed portion by reason of cost-sharing agreements or any under-recoveries through negotiation of flat amounts for indirect costs.
p. Pre-award costs, unless approved by the sponsoring agency or permitted under expanded authorities
q. Selling and marketing costs of any products or services of the institution
r. Student activity costs incurred for intramural activities, student publications, student clubs, etc.
s. Interest expense – however, interest paid to external parties that is associated with the acquisition of equipment or other capital assets is generally allowable.

Unallowable Costs on Federal Awards issued prior to Uniform Guidance
In addition to the costs in 1, above, the following costs are also unallowable for awards governed by 2 CFR 220 (formerly known as OMB Circular A-21):
1. Computers not solely designated for research purposes
2. Contingency provisions

Unallowable Directly Associated Costs
In addition to unallowable costs per se, charges to federally sponsored agreements must also exclude costs that are directly associated with the unallowable costs. A directly associated cost is defined in federal regulations as any cost which is generated solely as a result of the incidence of another cost, and which would not have been incurred had the other cost not been incurred. An example of a cost that is directly associated with an unallowable cost is the cost of airfare to go to another city for the purpose of entertaining business associates, or for fundraising. Since entertainment and fundraising costs are expressly unallowable under 2 CFR 200, Subpart E, and the airfare would not have been incurred had the unallowable costs not been incurred, the airfare is an unallowable directly associated cost.

While this policy addresses specific unallowable costs, the following practices would generally result in charges being disallowed:
1. Rotating charges among sponsored projects by month without establishing that the rotation schedule reflects the relative benefit to each grant.
2. Assigning charges to the sponsored project with the largest remaining balance.
3. Charging an amount based on the approved project budget versus the actual costs.
4. Assigning charges to sponsored projects before the cost is incurred.
5. Charging expenses exclusively to sponsored projects when the expense also has supported non-sponsored project activities.
6. Assigning charges that are part of the normal administrative support for contracts and grants which are included in indirect costs (e.g., proposal preparation, accounting, payroll, etc.).
7. Charging costs to substantially complete sponsored projects to expend remaining funds, without regard to the appropriateness of the costs.