ALLOWABLE COST DETERMINATION AND UNALLOWABLE COSTS

PURPOSE

Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards require that the recipient institution be responsible for ensuring that costs charged to a sponsored research agreement are allowable, allocable, and reasonable. Each financial transaction charged against a sponsored research award is evaluated against these three criteria.

A *primary* responsibility of the Principal Investigator and the USD Office of Grants & Contracts Accounting is to ensure that all costs charged to the sponsored research award are allowable and allocable. A determination of allowability and allocability for a given cost is based on the specific guidelines of the sponsoring agency and federal cost principles. All costs payable or reimbursable under USD policy must be charged to the appropriate worktags. For sponsored awards, it is the responsibility of the Principal Investigator to ensure that costs are charged to the appropriate worktags. In the event that unallowable, disallowed or questioned costs are charged to a sponsor, those costs will be transferred to the home department of the Principal Investigator. Administrative costs charged improperly to federal awards will result in unallowable costs, requiring reimbursement to the sponsor.

EXPLANATIONS Title 2 → Subtitle A → Chapter II → Part 200

§200.100 (a)(2)(c) *Cost Principles.* Subpart E
Cost Principles of this part establishes principles for determining the allowable costs incurred by non-Federal entities under Federal awards. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal Government participation in the financing of a particular program or project. The principles are designed to provide that Federal awards bear their fair share of cost recognized under these principles except where restricted or prohibited by statute.

ALLOWABLE COST DETERMINATION

Factors affecting allowability of costs
Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.

(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.

(c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of USD.

(d) Be accorded consistent treatment. 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.

(e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.

(f) Not be 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.

(g) Be adequately documented.

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.

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

(a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of USD or the proper and efficient performance of the Federal award.

(b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.

(c) Market prices for comparable goods or services for the geographic area.

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities USD, its employees, where applicable its students or membership, the public at large, and the Federal Government.

(e) Whether USD significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Allocable costs

(a) A cost is *allocable* to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

  (1) Is incurred specifically for the Federal award;

  (2) Benefits both the Federal award and other work of USD and can be distributed in proportions that may be approximated using reasonable methods; and

  (3) Is necessary to the overall operation of USD and is assignable in part to the Federal award in accordance with the principles in this subpart.

(b) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

(c) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal 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.

(d) If the contract is subject to the Cost Accounting Standards (CAS), costs must be allocated to the contract pursuant to CAS. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.

Consistency

Recipients must be *consistent* in assigning costs to cost objectives. All costs must be treated *consistently* for all work of USD under like circumstances, *regardless of the source of funding*.

UNALLOWABLE COSTS

Consistent with the OMB Uniform Guidance, 2 CFR 200, Subpart D – 200.300 Statutory and National Policy requirements and 200.309 Period of Performance, USD defines unallowable costs in the context of either a particular type of activity or a particular type of cost. Unallowable costs cannot be charged either directly or indirectly to the federal government.

The following is a high-level summary of unallowable activities and costs. CFR Part 200 section Subpart E Cost Principles should be referred to for specific questions and language.

Direct Costs

Costs incurred for the following types of activities are unallowable:

(a) Alumni/ae activities and relations

(b) Commencement and convocation ceremonies

(c) Contingency provisions/reserves

(d) Entertainment: amusement, diversion, and social activities and any associated costs

(e) Fund raising

(f) Investment management

(g) Lobbying

(h) Public relations unrelated to the performance of a sponsored award

(i) Student activities: intramural activities, student publications, student clubs, and other student activities not specifically provided for in a sponsored award

The following types of costs are unallowable:

(a) Alcoholic beverages

(b) Bad debt cost

(c) First class travel

(d) Fines and penalties

(e) Gifts

(f) Goods and services for personal use

(g) Interest

(h) Losses on other awards or contracts

(i) Memberships in social, dining or country clubs

(j) Salary charges above the federal salary ceiling on federal awards

USD may identify other award costs as unallowable based on consideration of:

(a) The sponsor’s policies;

(b) The award’s terms and conditions;

(c) University policies and procedures; and

(d) Facts and circumstances associated with a particular award.

Indirect Costs

The following costs are ordinarily not allowed to direct charge to federal sponsors but can qualify as indirect costs. Exceptions exist if the item is for non-routine use that can easily and specifically be identified with an award, is required for its completion, and its purpose is justified with written documentation.

(a) Advertising for goods, services, or personnel essential for a particular award

(b) Communications (local calls, postage, freight)

(c) General purpose equipment

(d) Administrative and clerical support

Costs normally considered indirect costs such as those above may be allowable as direct costs if they meet all three of the following unlike purpose and circumstances criteria:

1) An unlike purpose and circumstance exists in which a sponsored award requires resources beyond those normally expected for a typical research award;
2) The cost can be associated with the specific sponsored award with a high degree of accuracy; and
3) Items ordinarily not allowed as direct cost items have been disclosed in the budget narrative submitted to the sponsor for approval, and the awarding agency has approved the cost as a direct expense in the awarded budget.

The Uniform Guidance section 200.413(c) states that “salaries of administrative and clerical staff should normally be treated as indirect (F&A) costs”. USD usually records administrative and clerical salaries as indirect costs. However, the OMB Uniform Guidance provides criteria that if met, allows for inclusion of administrative and clerical salaries as direct charges on federal awards. The Uniform Guidance criteria includes:

(a) Administrative services are integral to an award or activity;

(b) An individual or specific role can be specifically identified with the award or activity;

(c) Such costs are explicitly included in the budget and/or have the prior written approval of the Federal awarding agency; and

(d) The costs are not also recovered as indirect costs.

DEFINITIONS

Allocation

Allocation means the process of assigning a cost, or a group of costs, to one or more cost objective(s), in reasonable proportion to the benefit provided or other equitable relationship. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

Cost sharing or matching

Cost sharing or matching means the portion of project costs not paid by Federal funds (unless otherwise authorized by Federal statute).

Direct costs

Direct costs means expenses that can normally be directly charged to federal awards. However, the terms and conditions of the sponsored award must be reviewed prior to determining the appropriateness of expenses for each individual award.

Disallowed costs

Disallowed costs means those charges to a Federal award that the Federal awarding agency or passthrough entity determines to be unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the Federal award.

Equipment

Equipment means tangible personal property (including information technology systems) having a useful life of more than one year and a per-unit acquisition cost which equals or exceeds the lesser of the capitalization level established by the non-Federal entity for financial statement purposes, or $5,000. All other tangible personal property is considered *Supplies*.

Federal salary ceiling

Federal salary ceiling means a legislative mandate limiting direct salary that an individual may receive under a National Institutes of Health (NIH) award or a direct salary limitation placed by a sponsoring agency.

Indirect costs [aka facilities and administrative costs (F&A) or overhead]

Indirect costs means expenses that may not be charged as direct expenses to federal awards unless the costs meet the unlike purpose and circumstances criteria.

Project cost

Project cost means total allowable costs incurred under a Federal award and all required cost sharing and *voluntary committed cost sharing*, including third-party contributions.

Questioned cost

Questioned cost means a cost that is questioned by the auditor because of an audit finding:

(a) Which resulted from a violation or possible violation of a statute, regulation, or the terms and conditions of a Federal award, including for funds used to match Federal funds;

(b) Where the costs, at the time of the audit, are not supported by adequate documentation; or

(c) Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

Supplies

Supplies means all tangible personal property other than those described in *Equipment*. A computing device is a supply if the acquisition cost is less than the lesser of the capitalization level established by USD for financial statement purposes or $5,000, regardless of the length of its useful life.

Unallowable costs

Unallowable costs means costs that may not be charged to a federal award either as a direct charge or indirectly as recovered through an indirect/F&A overhead rate.

Unlike Purpose and Circumstance

Unlike Purpose and Circumstance means an activity or cost which is substantially greater in amount or different in purpose than the normal use. Specifically, in order to direct charge a cost on a federal sponsored award that would ordinarily be charged as an indirect cost, the following requirements must be met before consideration:

(a) The sponsored agreement has an extraordinary need for the item or service that is beyond the level of services normally provided by departmental administration;

(b) The cost can be specifically identified to the work conducted under the sponsored agreement and is appropriately documented; and

(c) The direct cost justification provides sufficient basis to classify an indirect cost as a direct cost.

Voluntary committed cost sharing

Voluntary committed cost sharing means cost sharing specifically pledged on a voluntary basis in the proposal's budget or the Federal award on the part of the non-Federal entity and that becomes a binding requirement of Federal award.