

CLARK ATLANTA UNIVERSITY

Policy 7.7.2: Allowable Costs/Cost Principles



CLARK ATLANTA UNIVERSITY		
POLICY and PROCEDURE	Subject: Allowable Costs/Cost Principles	
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1.0 Policy Statement

This policy outline the proper treatment of allowable costs and the importance of assigning correct Account numbers to expenses to ensure proper treatment of costs. The cost principles also identify those charges that typically cannot be charged to sponsored awards and are considered unallowable expenses. Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions* (A-21), identifies costs that may be charged to federal awards.

2.0 Procedure Narrative

To ensure all costs recorded on an award are allowable, the accounting treatment of costs for sponsored awards must be consistent with generally accepted accounting principles. The University must use a general ledger Account on all transactions that reflects the true nature of the transaction. Transactions for sponsored awards should be authorized and recorded by skilled, trained staff with appropriate authorization.

The Research and Sponsored Programs Office (RSPO) and the Grants and Contracts Accounting Office should be consulted when the appropriate Account number to use is uncertain. Unallowable costs included in a proposed budget and subsequently in the award do not ensure allowability as a cost to the award. The Principal Investigator (PI) must ensure that specific approval is obtained from the sponsor for costs normally unallowable. It is the responsibility of the PI, not the sponsor, to ensure costs budgeted and/or charged to a sponsored award are allowable. The PI on an award or cooperative agreement is responsible for all costs charged to that agreement. The total costs of a sponsored award are comprised of the direct costs integral to the performance of the award, allowable Facilities and Administrative (F&A) or indirect costs of the institution, and all committed cost sharing for an award.

2.1 Allowable Costs

An allowable cost is a cost that has been accounted for in the terms of agreement for the project.

All costs must be allowable under federal regulations and sponsor terms and conditions, including program-specific requirements and University policy. To be allowable, costs must:

- Be reasonable and necessary;
- Be allocable to federally sponsored projects under the principles and methods provided in OMB Circular A-21;
- The costs must conform to any limitations or exclusions set forth in the sponsored agreement or in Federal Cost Principles (OMB Circular A-21).
- Be given consistent treatment; and
- The costs must be treated consistently through application of applicable generally accepted accounting principles appropriate to the circumstances

For a charge to be allowable, consideration should be given to:

- Terms and conditions of the agreement
- OMB Circular A-21 (federal and state awards)
- University Policy

2.2 Allocable Costs

An allocable cost is a cost that is directly related to the sponsored agreement that specifically furthers the work of the project.

Once allowability criteria have been met, the cost must be evaluated against the criterion of allocability. That is, has the cost 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 is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. Every incurred cost must have a direct benefit to the sponsored project being charged.

In general, a cost is allocable to a particular sponsored project if it fulfills one of the following conditions:

- It is incurred solely to advance the work under the sponsored agreement; or
- It benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods; or
- It is necessary to the overall operation of the institution and, in light of the principles provided in OMB Circular A-21, is deemed to be assignable in part to sponsored projects.

If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should 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 the costs may be allocated or transferred to benefited projects on any reasonable basis.

Note: Reasonable methods of allocating common use scientific items and supplies may include proportional benefit, specific anticipated use per award, Full Time Employees on each award, lab square footage, high correlation to another lab cost that is clearly allocated, and Modified Total Direct Costs (MTDC) proportions (i.e. relative size of non-salary budget, excluding equipment, tuition, and any subcontracts).

Any costs allocable to a particular sponsored agreement under the standards provided in OMB

Circular A-21 may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

From OMB Circular A-21, Section C.4.a, "A cost is allocable to a sponsored agreement if (1) it is incurred solely to advance the work under the sponsored agreement; (2) it benefits both the sponsored agreement and other work of the institution in proportions that can be approximated through the use of reasonable methods; or (3) it is necessary to the overall operation of the institution and in light of the principles provided in this Circular, is deemed to be assigned in part to sponsored projects."

For a charge to be allocable, consideration should be given to:

- Consistency
- Sound allocation methodology
- Appropriate documentation

2.3 Reasonable Costs

A reasonable cost is an expense that a prudent person would incur that is within the scope of the project.

OMB Circular A-21 defines a cost as reasonable if the nature of the goods or services acquired or applied, and the amount involved, reflect the action that a *prudent person* would have taken under the prevailing circumstances when the decision to incur the cost was made.

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 Facilities and Administration Cost (F & A) proposal.

A reasonable cost is one generally recognized as necessary for the operation of the performance of the sponsored agreement, and is consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

For a charge to be reasonable, consideration should be given to:

- Necessity of expenditure
- Advancement of Scope
- Consistency with established institutional policies and practices
- External review by a prudent individual

2.4 Expenses Incurred Near The End Date

Principle Investigators (PI's) must consider the lead-time in ordering goods and services near the end of the project to ensure delivery and utilization prior to the end date. If an item is not received during an award period, the benefit to the project is questionable. Such items are

routinely disallowed on audit, even if they were legitimate charges at the time the order was placed.

A large amount of orders placed near the end of a project may also give the appearance of spending up an available budget balance for goods to be used for future research. This is called "stockpiling" and is not allowable.

From OMB Circular section C.4.a.2, "Where the purchase of equipment or other capital items is specifically authorized under a sponsored agreement, the amounts thus authorized for such purchases are assignable to the sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved".

Such purchases must still be received and used prior to the project end date, and provide a necessary direct benefit to the project.

2.5 Expenses Incurred After The Project End Date

Valid post-termination expenditures are those charges that post to the account after the end date (within the closeout period specified by the sponsor), but actually occurred before the end of the project. Some examples are:

- Payroll for hours worked prior to the end date, but paid and posted after the end date
- Liquidation of valid purchase orders
- Expense transfers and corrections of errors that either remove expenditures, or transfer allowable expenditures to the account as long as the Cost Transfer Policy is followed

OGCA reviews all post-term expenses for validity. Detailed backup documentation must accompany all post-term expenditures in order to evaluate and determine the direct benefit to the project.

3.0 Entities Affected By This Policy

Office of Research and Sponsored Programs, Office of Grants and Contract Accounting, Principal Investigators, and Project Administrators

4.0 Definitions

Allocability: A cost is allocable to a cost include utilities, local telephone charges, shared office supplies, administrative or secretarial salaries, etc.

Modified Total Direct Costs (MTDC): MTDC costs are the base to which the F & A rate is applied. MTDC consists of all salaries and wages, fringe benefits (including the health component of Grad Fringe), materials sponsored project if it meets the "benefits test", i.e. if the cost is incurred to advance the work on the project and charged in accordance with relative benefits received or

other equitable relationship. This standard applies both to initial charges and to charges that are transferred to the project from somewhere else.

Allowability: Federal cost principles define "allowable" costs as those that are reasonable, necessary to complete the project objectives, and allocable by providing a direct benefit to the project (charged proportionately to benefit received and split funded appropriately). Refer to OMB Circular 21 section J for a list of allowable costs.

Direct Costs: Expenses that are specifically associated with a particular sponsored project that can be directly assigned to such activities relatively easily with a high degree of accuracy. Common examples of direct costs include the Principal Investigator's salary and fringe benefits, technical equipment, subcontract costs, travel, or other materials consumed or expended in the performance of the sponsored project.

F & A Costs: Costs incurred for common or joint objectives and, therefore, cannot be readily and specifically identified with a particular project or activity. They are expenses that benefit more than one activity..

Office of Management and Budget (OMB) A-21: Federal circular establishing principles for determining costs applicable to grants, contracts, and other agreements with educational institutions.

Reasonableness: OMB Circular A-21 defines reasonableness in terms of the "prudent person test". The general guide of reasonableness is, does the action "make sense" considering the context in which, and the purpose for which, the action is being taken.

Appendix A

Below is a general example of allowable and unallowable costs for NIH funded projects. Please note that there can be exceptions, usually stipulated in the award notice.

Examples of Allowable Costs for Federal Grants Based on the NIH Grants Policy Statement			
Expense Category	Allowable as a direct cost	Unallowable as a direct cost	Generally unallowable as a direct cost (requires detailed justification)
Administrative Services			X
Advertising	X (limited)		
Alterations/Renovations	X (limited)		
Animals	X		
Audiovisual Activities	X		
Bad Debt/Losses to Theft		X	
Bids and Proposal Costs		X	
Books/Periodicals			X
Communications-Long Distance			X
Communications-Local Calls		X	
Communications-Cell Phones			X
Contingency Funds		X	
Consultant	X		
Contracts for Materials	X		
Copying			X
Custom & Import Duties		X	
Donor Fees (Subject Incentives)	X		
Drugs/Medicine	X (limited)		
Dues/Membership Fees		X	
Entertainment		X	
Fines and Penalties		X	
Fringe Benefits	X		
Fundraising Costs		X	
Honoraria (Speakers' Fees)	X		
Information Services (Internet Charges)			X
Insurance			X
Leave	X		
Legal Costs			X

Library & Information Services			X
Memberships		X	
Meals (for subjects and patients)	X		
Meals (for others)			X
News Release Costs	X		
Office Supplies			X
Patient Care Costs	X		
Postage/Express Mail			X
Publication Costs	X		
Recruitment Costs	X		
Rent & Utilities (Offsite)	X		
Sabbaticals		X	
Sales Tax – State of Georgia		X	
Sales Tax – Other States	X		
Secretarial Services			X
Stipends (under Fellowship and Training Grants)	X		
Stipends (under Research Grants)		X	
Tuition			X