

 <p>Category: Financial</p> <p>Policy applicable for: Faculty/Staff</p>	<p><i>Policy Title:</i> Allowability, Reasonableness and Allocability of Costs for Sponsored Projects</p> <p>Effective Date: 07/01/2009</p> <p>Prior Effective Date: mm/dd/yyyy</p> <p>Enabling Acts: Federal Regulations OMB Circulars A-21, A-110, and A-133 University Rules 10-5-04, 10-5-07 and 10-5-10</p>	<p><i>Policy Number:</i> 2.1.22</p> <p>Policy Owner(s): Sr. VP for Administration and Finance Vice President for Finance Vice President for Research</p> <p>Responsible Office(s): Sponsored Research Services Government Cost Compliance</p>
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Background

When the University of Cincinnati accepts an award from a sponsor in support of a specific program or project, it is required to manage those funds prudently to ensure that any costs incurred directly benefit the project accounts being charged.

The Federal Government is the largest sponsor of externally funded activity at the university. The cost principles relating to expenditures on federal awards are contained in the Office of Management and Budget's (OMB) Circular A-21, *The Cost Principles for Institutions of Higher Education*. These cost principles require that any expense charged to a federally sponsored project be reasonable and necessary, allocable, consistently treated, and conform to any limits or exclusions set forth in A-21 or the terms and conditions of the award.

In addition, individual awards may include special terms and conditions that must be considered when incurring costs. Consult with the appropriate Grant Administrator in the Sponsored Research Service Office for more details.

This policy addresses the allowability, reasonableness and allocability of costs on sponsored projects and the roles and responsibilities associated with those costs.

Policy

Allowable Costs

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;
- be given consistent treatment; and
- conform to any limits or exclusions set forth in A-21 or the terms and conditions of the award.

OMB Circular A-21 Section J (see *Related Links*) spells out in great detail the allowability of particular elements of cost. When an item is questionable, SRS should be consulted before the cost is incurred.

Typical costs charged directly to a sponsored project include:

- compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs;
- costs of materials consumed or expended in the performance of the sponsored project;
- travel in accordance with the university policy;
- other allowable items of expense incurred for the direct benefit of the sponsored project. (See OMB Circular A-21 in *Related Links* for further details).

Costs of materials from stock or services rendered by specialized facilities (service centers) or other institutional service operations may be included as costs under federally sponsored agreements, provided such items are:

- consistently treated in similar circumstances as direct costs, rather than Facilities and Administrative (indirect) costs;
- charged under a recognized method of computing actual costs; and
- approved by the university's Recharge Council and monitored by Government Cost Compliance.

Reasonable and Necessary Costs

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.

Important considerations in determining the reasonableness of costs are:

1. Is the cost of a type generally recognized as necessary for the performance of the sponsored project?
2. Have the restraints or requirements imposed by such factors as federal and state laws and regulations, sponsored agreement terms and conditions, and arm's-length bargaining been satisfied?

3. Have the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the government, and the public at large?
4. Is the extent of the actions taken with respect to the incurrence of the costs (e.g., hiring decision, choice of goods or services, determination of salary or price, vendor selection, etc.) consistent with established institutional policies and practices applicable to the work of the sponsored project?

Allocable Costs

A cost is allocable to a particular sponsored project if the goods or services involved are chargeable or assignable to such project in accordance with relative benefit 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 (i.e. facilities and administrative costs).

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.

Reasonable methods of allocating common use scientific items (i.e. equipment, maintenance agreements) and supplies may include (1) proportional benefit, (2) specific anticipated use per award, (3) FTEs on each award, (4) lab square footage, (5) high correlation to another lab cost that is clearly allocated, and (6) modified total direct costs (MTDC) proportions (i.e., relative size of non-salary budget, excluding equipment, tuition, and any subcontracts).

Where the purchase of equipment or other capital items is specifically authorized under a sponsored agreement (specifically approved by the sponsor), 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.

Any costs allocable to a particular sponsored agreement under the standards provided in OMB Circular A-21 shall not be shifted to other sponsored agreements in order to

meet deficiencies caused by overruns or other fund considerations (i.e., unexpended balance at the end of a budget or project period), to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

Any costs allocable to activities sponsored by industry, foreign governments, or other sponsors shall not be shifted to federally sponsored agreements.

Roles and Responsibilities

The PI with the assistance of the department business manager is responsible for ensuring that all expenditures on sponsored projects are reasonable and necessary, allocable, consistently treated, conform to any limits or exclusions set forth in A-21 or the terms and conditions of the award and adhere to university policy. Department business managers and PIs shall review award expenditures on a timely basis and document the review. Review of expenditures should be performed monthly to ensure that any adjustments are made promptly, allowing for accurate reimbursements from the sponsor and reporting to the sponsor within the timeframe specified by the award terms and conditions. Immediate action (i.e. cost transfer request) must be taken to resolve any errors or discrepancies noted during the review.

Sponsored Research Services is responsible for the timely review of expenditures in accordance with sponsor terms and conditions and university policies during the close out of each sponsored project. This review must be completed within the timeframe indicated in the terms and conditions of the sponsored project. During the review a Grant Administrator in SRS may need clarification or justification of expenses charged. The department business office and or PI shall provide additional documentation to meet sponsor terms and conditions or university policies.

Related links:

[Cost Transfers on Sponsored Projects Policy \(2.1.23\)](#)

[Effort Commitment on Sponsored Projects Policy \(2.1.20\)](#)

[Labor Verification on Sponsored Projects Policy \(formerly Effort Reporting on Sponsored Projects Policy\) \(2.1.21\)](#)

[Government Cost Compliance \(Service Centers\)](#)

[OMB Circular A-21 Section J](#)

[Researcher's Gateway](#)

[Sponsored Research Services](#)

[University of Cincinnati Policies, Procedures & Manuals](#)

[University \(Board\) Rules](#)

[U.S. Office of Management and Budget](#)

Phone Contacts:

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Accounting Division

Government Cost Compliance 556-0184 or 556-2628