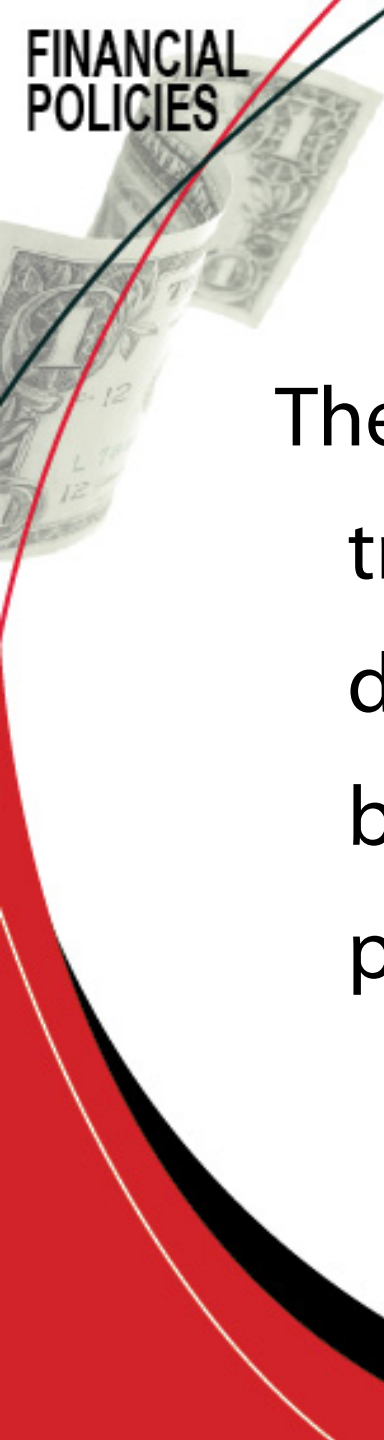




Financial Policies Training:

***Allowability, Reasonableness
and Allocability of Costs for
Sponsored Projects
(2.1.22)***

Effective Date: July 1, 2009



These PowerPoint slides are intended for training purposes. In the event of any discrepancy or interpretation difference between the policy and the slides, the policy dictates.



Allowability, Reasonableness and Allocability of Costs for Sponsored Projects

- **Agenda**
 - ▶ *Background Information*
 - ▶ *Costs on a Sponsored Project*
 - Total costs
 - Allowable costs
 - Reasonable costs
 - Allocable costs
 - Allocating costs to multiple projects
 - Unallowable costs
 - ▶ *Roles and Responsibilities*
 - ▶ *Resources*



Background Information

- ◆ **When accepting an award from a sponsor in support of a specific project, the university is required to**
 - ▶ *Manage the funds prudently and to **ensure costs incurred directly benefit** the project account charged*
 - ▶ *Adhere to the Office of Management and Budget Circular A-21 (The Cost Principles for Institutions of Higher Education) **when expending funds** on federally sponsored projects*
 - ▶ *Adhere to **special terms and conditions** of an individual award when incurring costs*



Background Information

- **Policy 2.1.22 (Allowability, Reasonableness and Allocability of Costs for Sponsored Projects)**
 - ▶ *Addresses how faculty and staff **expend funds** on federally funded sponsored projects*
 - ▶ *Applies to all individuals who are responsible for expenditures on*
 - ▶ *sponsored projects (in whole or in part) **OR***
 - ▶ *cost share*



Costs of a Sponsored Project

- **Total Costs**

- ▶ Costs associated with a sponsored project are
 - the allowable **direct** costs benefiting the project and
 - the allowable **indirect** costs (facilities & administrative costs) of UC
- ▶ Typical direct costs would include
 - salary, fringe benefits, travel, equipment, supplies, service center charges, etc
- ▶ **All direct costs** expensed to a project **must benefit** that project



Costs of a Sponsored Project

- **Allowable Costs**

- ▶ Federally sponsored awards must comply with the cost principles outlined in the OMB Circular A-21 tests of allowability
- ▶ The tests of allowability are
 - *The costs must be reasonable*
 - *The cost must be allocable to the project*
 - *The cost must be treated consistently at the awarding institution*
 - *The costs must conform to any limitations or exclusions as defined by A-21 or the sponsored agreement*



Costs of a Sponsored Project

Reasonable Costs

- ▶ A cost is reasonable if
 - *the goods or services acquired/applied and*
 - *the cost of the goods or services involved*
 - *reflect the **action a prudent person** would have taken under the prevailing circumstances at the time the decision was made to incur the cost*

- ▶ Important considerations include:
 - *Is the cost recognized as **necessary** for the project?*
 - *Did the person act with **due prudence** given the circumstances?*
 - *Is the cost consistent with the **terms and conditions** of the sponsored agreement?*
 - *Does the cost **follow institutional** policies and procedures?*

Costs of a Sponsored Project

• **Allocable Costs**

- ▶ A cost is allocable if
 - *the goods or services provided **directly benefit** the project*
- ▶ Considerations include:
 - *Is the cost incurred solely to **advance the work** under the sponsored agreement?*
 - *If the cost benefits more than one project, has the cost been allocated by some **reasonable method**?*
 - *If the cost is equipment or other capital item **specifically approved** by the sponsor, the cost is assignable regardless of the percentage of use by the project*

Costs of a Sponsored Project

Allocable Costs – Caveats

- ▶ “Any cost allocable to a sponsored project under the standards of A-21 may not be shifted to another sponsored project because a project is overrun or due to other funding considerations, to avoid restrictions imposed by the terms of the sponsored agreement or any other reason of convenience.” OMB Circular A-21 C.4.b
(see [*Cost Transfers on Sponsored Projects Policy 2.1.23*](#) for specifics and examples of what is considered a reason of convenience)
- ▶ Costs allocable to activities sponsored by industry, foreign governments or other sponsored must not be shifted to federally sponsored agreements



Costs of a Sponsored Project

Allocating Costs to Multiple Projects

- ▶ Costs that benefit two or more projects or activities
 - ◆ *if proportions can be determined without undue effort*
 - ▶ Allocate cost to the project based on the proportional benefit
 - ◆ *if proportions cannot be determined easily*
 - ▶ contact SRS for guidance



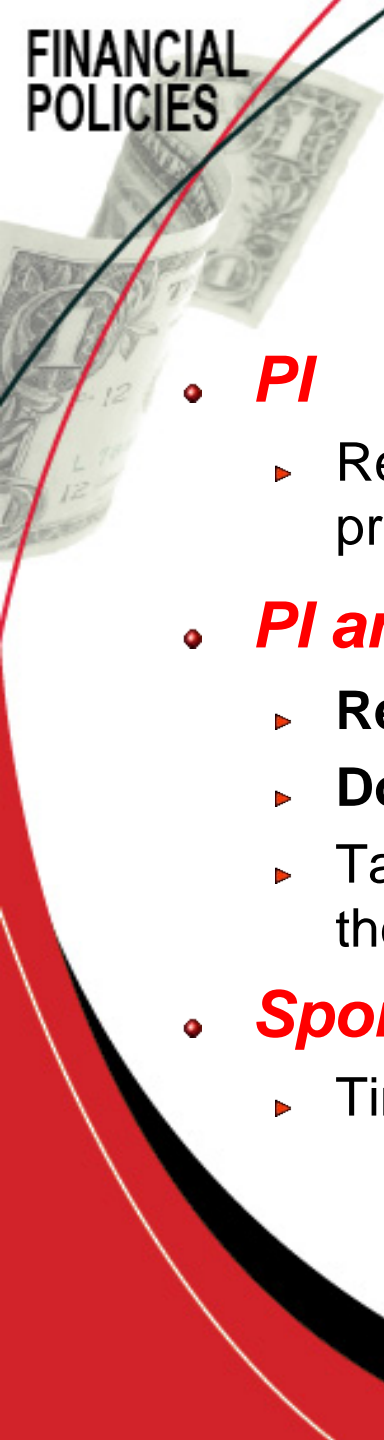
Unallowable Costs

● ***Examples:***

- ▶ **Alcoholic beverages consumed as entertainment**
- ▶ **Alumni activities**
- ▶ **Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements**
- ▶ **Donations and contributions made by an institution**
- ▶ **Entertainment**
- ▶ **Executive and legislative lobbying**
- ▶ **Insurance against defects**
- ▶ **Fines and penalties**
- ▶ **Goods and services for the personal use of employees**
- ▶ **Housing and personal living expenses of an institution's officers**
- ▶ **Memberships in any civic, community or social organization or country club**

Unallowable Costs

- ***Examples:*** (cont.)
 - ▶ Selling or marketing of goods or services
 - ▶ Trustees' travel
 - ▶ Advertising expenses except for employee and subject recruitment
 - ▶ Bad debts
 - ▶ Commencement and convocation costs
 - ▶ Contingency provision costs
 - ▶ Interest, fund raising, and investment costs (exceeding third party interest expenses)
 - ▶ Malpractice insurance that does not involve human subjects
 - ▶ Public relations costs
 - ▶ Student activity costs



Roles and Responsibilities

- ◆ **PI**
 - ▶ Responsible for ensuring that all expenditures on sponsored project **comply** with this policy

- ◆ **PI and department business manager**
 - ▶ **Review award** expenditures on a timely basis (i.e., monthly)
 - ▶ **Document** the review
 - ▶ Take immediate action to **correct errors** discovered during the review

- ◆ **Sponsored Research Services**
 - ▶ Timely review of expenditures at sponsored project **close out**

Resources

- **Allowability, Reasonableness and Allocability of Costs for Sponsored Projects (2.1.22)**
(www.uc.edu/af/policies)
- **Related policies** (www.uc.edu/af/policies)
 - ▶ *Effort Commitment on Sponsored Projects (2.1.20)*
 - ▶ *Effort Reporting on Sponsored Projects (2.1.21)*
 - ▶ *Cost Transfers on Sponsored Projects (2.1.23)*
- **SRS website** <http://srs.uc.edu/>
- **Questions?**
 - ▶ *Contact your SRS representative*
<http://srs.uc.edu/Divisions.aspx>
 - ▶ *Government Cost Compliance 556-0184 or 556-3108*