

Allowable Expenses on Sponsored Projects

The following information addresses allowable expenses on sponsored projects. Sponsored projects are projects funded by Federal and nonfederal agencies that are administered by the Office of Research and Sponsored Programs. Sponsored projects include grants, contracts, and cooperative agreements for research, training, and public service activities. They are assigned to Oracle account fund segment series 4000 - 6999.

This guidance is intended to supplement, not supersede, existing University or sponsor policy.

Federal regulations mandate that universities establish consistent practices for defining and charging costs in accordance with the provisions of [2 CFR 200](#) (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards), Subpart E (Cost Principles), and the terms and conditions of the award document.

It is the responsibility of project directors, principal investigators, department heads, and administrators to understand and comply with this guidance in order to prevent cost disallowances by the Federal government and other grant or contract sponsors. The Office of Research and Sponsored Programs offers New Project Orientation meetings to familiarize faculty and staff with these requirements.

DETERMINING ALLOWABILITY OF DIRECT COSTS

Direct costs are costs that can be specifically identified and assigned with relative ease and a high degree of accuracy to sponsored projects. The major criterion for direct charging of costs to sponsored projects is the identification of a given cost with the sponsored work rather than the nature of the goods and services involved. In order for expenditures to be direct costs of a sponsored project, they must be *allowable, allocable, reasonable, and consistently applied*.

Allowable: Costs specifically allowed under the terms and conditions of the sponsored project, 2 CFR 200, and the approved project budget.

Allocable: The costs must have a direct benefit and be directly attributable to the project or activity being performed. Costs incurred for multiple projects/activities must be identified as follows:

- If the cost is specific and benefits more than one project, the cost can only be assigned and allocated to the project(s) based on that portion of the expense that represents the direct benefit to the project. If an appropriate basis such as actual usage cannot be identified to allocate the costs with *relative ease* and with a *high degree of accuracy*, such costs must be considered indirect costs. As a rule of thumb, if these costs benefit multiple (e.g., four or five) projects/activities, the ability to accurately allocate the cost to the appropriate projects/activities diminishes and therefore becomes questionable as a direct cost.

- If the benefit is spread over multiple projects to serve common shared activities and it is difficult to identify a direct benefit to each activity or project, the cost must be considered an indirect cost.
- In some situations, it may be difficult to determine at the time of purchase or vendor payment how much an allowable but shared direct cost expenditure benefits a particular sponsored project. The basis of an allocation or distribution (effort, square footage, headcount, or other measure of usage) must logically relate to the type of cost being allocated. The allocation methodology must produce a result that is allowable, allocable, and reasonable. Examples of such types of allocated costs include, but are not limited to: lease payments on buildings, vehicles, and other equipment; payments to providers of services utilized on multiple projects (insurance, internet services, etc.), and personnel salaries shared among multiple projects contributing varying periodic effort.

Reasonable: The cost must be able to withstand public scrutiny; an objective individual not affiliated with the University would agree that the cost is appropriate for the scope of the project, and a prudent person (someone acting with discretion and good sense) would pay this price for this item considering the prevailing circumstances at the time of the purchase. Other considerations to determine reasonableness:

- Is the purchase necessary for the performance of the project?
- Does incurring the expense violate rules, regulations or laws imposed by the sponsor, the University, or the state or Federal government?
- Did the individual(s) incurring the expense do so with respect to his/her responsibility to the University, the sponsor, and the state and Federal government?
- Were the actions taken when incurring the expense consistent with established policies and procedures?

The Office of Research and Sponsored Programs does not determine what price is reasonable nor disallow an expense based on its price. The Office of Business Operations provides authority regarding the price of items. PI/PDs should explain and document any expenses which might appear to be unreasonable. This will help alleviate concerns regarding allowability.

Consistent: All expenditures incurred for the same purpose must be treated the same in all situations, regardless of the source of the funds. For example, expenses such as travel reimbursement or salaries cannot be paid at different rates just because a sponsor is being charged for them.

Costs charged to a sponsored project must be consistent with policies and procedures that apply uniformly to both federally sponsored and other activities of the University. 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.

UNALLOWABLE COSTS

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. Cost categories are defined as allowable or unallowable in 2 CFR 200.420 - 200.475, General Provisions for Selected Items of Cost.

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, or 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 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. Interest, unless specifically provided for in the Federal award. However, interest paid to external parties that is associated with the acquisition of equipment or other capital assets is generally allowable.
- n. Investment management costs
- o. Lobbying
- p. 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.
- q. Pre-award costs, unless approved by the sponsoring agency or permitted under expanded authorities
- r. Selling and marketing costs of any products or services of the institution
- s. Student activity costs incurred for intramural activities, student publications, student clubs, etc.

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 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.

Other Unallowable Costs

While this policy addresses specific unallowable costs, the following practices would generally result in charges being disallowed:

- a. Rotating charges among sponsored projects by month without establishing that the rotation schedule reflects the relative benefit to each grant.
- b. Assigning charges to the sponsored project with the largest remaining balance.
- c. Charging an amount based on the approved project budget versus the actual costs.
- d. Assigning charges to sponsored projects before the cost is incurred.
- e. Charging expenses exclusively to sponsored projects when the expense also has supported non-sponsored project activities.
- f. 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.).
- g. Charging costs to sponsored projects that are substantially complete in order to expend remaining funds, without regard to the appropriateness of the cost.
- h. Incurring expenses outside the award period (unless preaward costs are approved).
- i. Charging maintenance and service agreements outside the award period.

PURCHASING PROCEDURES

Once you have determined that an expense is allowable, you need to determine if the purchase will be made through a requisition, procurement card, or request to pay. For more information, go to the Office of Business Operations' website <https://obo.uni.edu>.