

ALLOWABLE COSTS ON FEDERAL GRANTS

Purpose:

The purpose of this policy is to ensure that Lewis University complies with the Federal Office of Management and Budget (OMB) standards regarding direct costs on projects funded by agencies of the federal government.

Summary:

Direct costs charged to any external grant must be allowable, allocable, and reasonable.

OMB provides the standards to which federal grants must conform in 2 CFR 220 “Cost Principles for Educational Organizations” and in 2 CFR 215 “Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations.”

It is the responsibility of the Principal Investigator/Program Director, with the assistance of the Office of Sponsored Programs, to ensure that all costs charged to any external grant meet the guidance of the sponsor.

Definitions:

Direct costs are costs associated with a specific sponsored project that can be directly assigned to essential activities with relative ease and a high degree of accuracy. They include such costs as personnel (salaries and fringe benefits), supplies, equipment, travel, and other expenses necessary to the conduct of sponsored activities (Circular A-21, Sect. D1). Direct Costs typically including the following items:

Personnel Costs

- Salary/Wages
- Fringe Benefits

Non-Personnel Costs

- Consumable Supplies
- Equipment
- Subawards/Subcontracts
- Other Costs (may include tuition, non-consumable supplies, and other goods/services)

Allowable costs must be authorized for payment under the terms of the award made by the sponsor (Circular A-21: Section C2). The tests as to whether a cost is allowable are as follows:

- a. the cost must be reasonable;
- b. it must be possible to allocate the cost to a sponsored project using the principles and methods provided by the federal or state regulations;

- c. the cost must be given consistent treatment by application of generally accepted accounting principles appropriate to the circumstances and in compliance with Lewis University's accounting practices; and,
- d. the cost must conform to any limitations or exclusions set forth in Circular A-21, the award document, the sponsoring agency's guidelines in terms of types or amounts of cost items, state regulations, or policy.

Allocable costs are for a specific good or service that is chargeable or assignable to a particular cost objective (i.e., a specific function, project, sponsored project, department or the like) in accordance with the relative benefits received or other equitable relationship (Circular A-21: Section C4). The tests as to whether a cost is allocable are as follows:

- a. is the cost incurred solely to advance the work of the sponsored project;
- b. does the cost benefit both the sponsored project and other work of the institution in proportions that can be approximated through use of reasonable methods; or,
- c. is the cost necessary to the overall operation of the institution based on the principles in Circular A-21 or as deemed assignable by the sponsored project.

Note: In the case of equipment or other capital items purchased with specific authority of a sponsored award, the amount authorized for such purchases is assignable to the sponsored project regardless of the use that may subsequently be made of the items. Any cost allocable to a particular sponsored project according to the standards of the project may not be shifted to other sponsored projects to compensate for overruns, other reasons of convenience, or to avoid restrictions in law or the terms of the sponsored award. Neither may costs allocable to activities sponsored by industry, foreign governments, or other sponsors be shifted to federally-sponsored projects.

Reasonable costs are those where the nature and amount of the goods or services acquired for or applied to a specific sponsored project reflect the actions of a prudent person under the circumstances prevailing when the decision to incur the cost was made (Circular A-21: Section C3). Major considerations in determining the reasonableness of a cost are as follows:

- a. whether or not the cost is generally recognized as necessary for the performance of the sponsored project or the operation of the institution;
- b. the restraints or requirements imposed by factors such as arm's-length bargaining, federal and state regulations, terms and conditions of a sponsored agreement, or agency guidelines;
- c. whether or not the individuals acted with prudence in considering their responsibilities to the institution, its employees, its students, federal or state government, and the public at large; and,

- d. whether or not the actions taken to incur the cost are consistent with established institutional policies and practices applicable to the work of the institution generally and inclusive of sponsored projects.

Sponsored activities are those externally funded activities that must be separately budgeted and accounted for according to the terms of the sponsoring organization, State regulatory precepts, and policy. Sponsored projects may include grants, contracts, and cooperative agreements with any Federal Agency, State Agency, or non-Governmental Organization that supports research, training and public service activities.

Unallowable costs are any costs that are specifically prohibited from being charged to a grant either by sponsor guidance or university policy. Examples of costs that are typically unallowable on a grant budget include (but are not limited to) the following:

- Alcoholic beverages
- Certain Travel Costs (e.g., first class airfare)
- Entertainment
- Fundraising
- Fines and penalties
- Lobbying
- Goods or services for personal use
- Membership in civic, community, or social organizations

Procedure:

1. Prior to submittal to the sponsor, all budgets for external funding must be reviewed by the Office of Sponsored Programs, which will certify (through the Application Transmittal Form) that the budget is accurate and reflects the funding requirements of the sponsor. The proposal budget will be forwarded to the Business Office.
2. Upon receiving a Notice of Grant Award (NGA) from a sponsor, the Office of Sponsored Programs will forward the NGA to the Business Office, which will review the document for any award-specific limitations on direct costs that may conflict with the proposal budget.
3. Any invoices, either for materials or for services provided to the grant, including services provided by a subawardee, must be reviewed and approved by the Principal Investigator. The Principal Investigator will certify that the costs incurred were for the benefit of the grant.
4. Before making any direct charge against the grant, the Business Office will ensure that the cost being submitted for payment appears on the proposal budget and is not otherwise prohibited by the terms and conditions of the award.
5. In the event that the project requires a reassignment of budgeted funds, the Office of Sponsored Programs will communicate with, and receive approval from, the Program Officer as required under OMB Circular A-21 (2 CFR 220).