



Policy Number:	6.015
Originating Office:	Finance and Administration
Responsible Executive:	Vice President of Finance and Admin
Date Issued:	10/13/2011
Date Last Revised:	04/12/2022

Allowable and Unallowable Costs on Sponsored Awards

Policy Contents

I. Reason for this Policy.....	1
II. Statement of Policy	1
III. Definitions.....	4
IV. Procedures	4
V. Related Documents, Forms and Tools.....	5

I. REASON FOR THIS POLICY

This policy outlines the general procedures for determining allowable costs on sponsored awards received by the University of South Dakota (USD). The goal is to provide clear guidance as to what constitutes appropriate direct and indirect charges to sponsored projects as well as to achieve consistency in charging practices across the University.

The principles of *the Uniform Guidance (2 C.F.R, Part 200)* govern costs that may be charged directly or indirectly to the federal government by educational institutions. USD generally applies these same cost principles to non-federal funding as well.

II. STATEMENT OF POLICY

Allowable Costs

An allowable cost is a cost that can be paid by a contract or grant. Each awarding agency has the right to establish its own terms and conditions for its awards. Specific award terms and conditions take precedence over the provisions of the Uniform Guidance, as described below. USD policies and procedures will apply if the sponsored award agreement or the CFR's do not specifically address the cost.

In general, USD considers a cost to be allowable when it meets the following tests:

1. The cost is necessary, reasonable and allocable for the performance of the award
2. The cost is consistent with policies and procedures that apply uniformly to both federally financed and other activities of USD.
3. Is in accordance with generally accepted accounting principles (GAAP)
4. Is not included or used as cost share or match for any other federally financed program.

Reasonable Costs

A cost is reasonable if it reflects what a prudent person might pay. When determining a reasonable cost, considerations must be given to:

1. Whether the cost would be recognized as ordinary and necessary for the Federal award.
2. Factors such as sound business practices, arm's length bargaining, other laws and regulations and the terms and conditions of the award.
3. Market prices for comparable goods or services in the geographic area.
4. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
5. Deviation from established policies and practices at USD.

Allocable Costs

A cost is allocable to an award if the goods or services involved are assignable to the award. This standard is met if the cost:

1. Is incurred specifically for the sponsored project.
2. Benefits both the sponsored project and other work of the University and can be distributed in proportions using reasonable methods.
3. Is necessary to the overall operation of the University and is assignable in part to the sponsored project.

Direct Costs

The salaries of administrative and clerical staff should normally be treated as Indirect (F&A) Costs. Direct charging of these costs may be appropriate only if all of the following conditions are met:

1. Administrative or clerical services are Integral to a project or activity;
2. Individuals involved can be specifically identified with the project or activity;
3. Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
4. The costs are not also recovered as Indirect Costs.

Materials and supplies used for the performance of a sponsored project may be charged as

Direct Costs. In the specific case of computing devices, charging as a direct cost is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award.

Consistent treatment of costs is required on federal awards. 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.

Indirect Costs

Indirect Costs are costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Indirect Costs at higher education institutions are infrastructure costs of the University needed to support the programs of the institution, including research and other sponsored programs. Building depreciation, maintenance costs, the cost of electricity and heat, accounting services, personnel services, departmental administration, purchasing, and human subject administration are examples of Indirect Costs.

Cost Share

For all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be Allowable under Subpart E of the OMB Uniform Guidance, Cost Principles.

Unallowable Costs

It is important to read the specific provisions of the Uniform Guidance when determining the allowability of a cost. There are certain circumstances where items listed above may be allowable. In the case where an unallowable cost has been identified, that cost cannot be charged to the grant or contract. Instead, it must be charged to a local USD fund assuming that the cost is allowable under University policies. Costs that are generally prohibited by the Uniform Guidance include, but are not limited to:

1. Advertising and public relations costs, specifically expenditures to promote the University
2. Alcoholic beverages
3. Commencement and convocation costs
4. Deans of faculty and graduate schools, specifically salaries
5. Donations and contributions
6. Entertainment costs without a programmatic purpose
7. Fines and penalties
8. Fund raising and investment costs
9. Goods or services for personal use

10. Housing and personal living expenses for University officers
11. Lobbying
12. Memberships in any country club, social or dining club, or organization whose primary purpose is lobbying
13. Selling and marketing
14. Student activity costs incurred for intramural activities, student publications, student clubs, etc.

III. DEFINITIONS

Allocable - a cost incurred specifically for the program, or several activities but can be distributed between them in Reasonable proportion to benefits received and is clearly necessary to the program.

Allowable - costs directly related to the performance of a sponsored award and permitted under its terms and the Uniform Guidance that must be reasonable, necessary, allocable, and treated consistently with generally accepted accounting principles.

Direct Cost - cost where a specific grant or contract gains explicit benefit from that cost for a specific programmatic purpose. (e.g., salaries, wages, fringe benefits, consultants, materials and supplies, equipment, travel, participant costs, tuition, and subcontracts).

Indirect Costs/Facilities and Administrative (F&A) - costs incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored award (e.g., depreciation of buildings and equipment, computing infrastructure, administrative services, utilities, and custodial services). Generally, these kinds of costs are identified, pooled, and charged against individual programs or funding sources using a rate designed to recover the costs.

Principal Investigator (PI) – The individual responsible for the development, writing and conduct of a sponsored award, who also has primary responsibility for the technical and fiscal management of the award.

Reasonable Costs - a cost is Reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Unallowable - those charges to an award that the sponsor determines to be Unallowable, in accordance with the applicable Federal statutes, regulations, or the terms and conditions of the grant or contract.

IV. PROCEDURES

The Principle Investigator (PI) or their delegate must perform a review of costs charged to sponsored projects on a monthly basis to ensure allowability of costs in accordance the Uniform Guidance and/or the terms of the specific contract or grant. In addition to the review of costs, a comparison of expenditures with budget amounts must also be perform to verify budget accuracy and determine if a budget revision is necessary.

In addition, Grants Accounting personnel will review expenses charged to sponsored program. In the event that unallowable costs are charged to a sponsored project, the PI and/or their delegate will be contacted and required to remove the expense within 30 days.

V. RELATED DOCUMENTS, FORMS AND TOOLS

Uniform Guidance, Code of Federal Regulations, Title 2, Subtitle A, Chapter II, Part 200
<https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200?toc=1>

USD Policies & Procedures
<https://www.usd.edu/policies>