

SAM GUIDELINES FOR DETERMINING THE ALLOWABILITY OF COSTS ON SPONSORED PROJECTS

The concepts of allowability, allocability, and reasonableness address directly the question of whether a cost may be charged as a direct or indirect cost against a specific sponsored research award. Allowability, allocability, and reasonableness are defined and determined by the Office of Management and Budget (OMB) regulations, the sponsor's requirements, SC State and federal laws and/or University policy. OMB regulations contained in 2 CFR 200 (Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) require that costs charged to a sponsored research agreement are allowable, allocable, and reasonable. Each financial transaction charged against a sponsored award is evaluated against these three concepts.

It is a shared responsibility of the originating unit, Sponsored Awards Management (SAM) and Contract & Grant Accounting (CGA) to insure that all costs charged to the sponsored research award are allowable, allocable and reasonable. A determination of allowability, allocability and reasonableness for a given cost is based on the specific guidelines of the sponsoring agency, University policy, SC state and federal law, and federal cost principles.

Allowability of Costs

Allowable: This factor determines whether or not the cost being considered would be authorized for payment under the terms of the award made by the sponsor. Some costs are deemed to be unallowable by regulation and/or policy. [*i.e.* "Will the sponsor pay for this expense?"]

Reasonable: A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amounts involved reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision was made to incur the cost. [*i.e.* Would a prudent person have purchased the item and paid that price?];

Major considerations involved in the determination of the reasonableness of a cost are:

- (a) whether or not the cost is a type generally considered necessary for the operation of the institution or the performance of the sponsored project;
- (b) the restraints or requirements imposed by such factors as sound business practices, Federal and State laws and regulations, sponsored agreement terms and conditions, or agency guidelines;
- (c) whether or not the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Government, and the public at large; and

(d) the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored projects.

Allocable: A cost is allocable to a particular cost objective [*i.e.*, a specific function, project, sponsored project, department, or the like] if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship. [*i.e.* "Is the proposed expense related to the project?"]

Subject to the foregoing, a cost is allocable to a sponsored project if:

- (a) it is incurred solely to advance the work under the sponsored project;
- (b) it benefits both the sponsored project and other work of the institution, in proportions that can be approximated through use of reasonable methods; **or**
- (c) it is necessary to the overall operation of the institution and, in light of the principles provided in 2 CFR 200, is deemed to be assignable in part to sponsored projects.

Costs must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances, and in compliance with the University's Cost Accounting Standards Board (CASB) Disclosure Statement; and must conform to any limitations or exclusions set forth in 2 CFR 200, the award document, or the agency's guidelines.

NOTE: *Any allowable costs allocated to a sponsored project under these standards may not be shifted to other sponsored projects in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored project, or for other reasons of convenience. In addition, any allowable costs allocated to activities sponsored by industry, foreign governments, or other sponsors may not be shifted to federally-sponsored projects.*

RESOURCES FOR ALLOWABILITY DETERMINATION

In determining the above, the following documents must be reviewed:

Approved Project Budget

The Allowability of a cost is first determined by examining the budget that the agency approved for the project. Does the proposed expense show up under a line item of the budget? If the item does not appear in the budget, then other reviews must be conducted to determine if the item is allowable under rebudgeting authority that may be granted in the situation, or if the item may be allowable if prior approval is obtained in writing from the agency. If the budget has not been incorporated into the award document, then allowability must be determined in accordance with allowable cost principles of the agreement [2 CFR 200].

The Award Agreement

Allowability of certain costs may be addressed within the award agreement issued for the sponsored project. For example, grant awards may identify certain costs that are specifically not allowed by the agency based upon recommendations from the peer review system.

Funding Agency Guidelines

Even if the type of expense proposed appears on the budget, the specific expense may not be allowable. Most Federal agencies have guidelines for administering grants. These guidelines give direction on the allowability of certain costs. For example, travel costs may appear in the budget, but the specific cost for airfare to a location outside of the United States for a meeting, or to perform a portion of the sponsored project, may require prior approval according to the guidelines of the specific sponsoring agency.

2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

The primary governing regulations for determining the reasonableness, allocability, and allowability of costs on Federal grants, contracts, and cooperative agreements, in addition to all other sponsored projects, is **2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards** (http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl). For example, it states that alcoholic beverages are unallowable. 2 CFR 200 also gives guidance on how allowable costs are to be charged as either direct charges to a sponsored project or allocated as facilities and administrative (F & A) costs (formerly referred to as indirect costs).

The following table is a quick reference of some of the allowable and unallowable costs specified in 2 CFR 200.420 – 200.475.

Type of Cost	Allowable as a Direct Cost	Unallowable as a Direct Cost
Advertising/Public Relations	Allowable <i>only</i> if related to and necessary for performance of the sponsored project	Unallowable for advertising related to the image of the University, or events related to instruction or institutional activities, promotional items.
Alcoholic Beverages	Unallowable	Unallowable
Bad Debt	Unallowable	Unallowable
Compensation for Personal Services	Salaries, wages, and fringe benefits of personnel who directly contribute to the project (faculty, post doc, research associate, graduate and undergraduate student)	Unallowable for administrative and clerical staff except in unusual circumstances as noted in 2 CFR 200.413(c). If allowable as an exception, cost must be in the budget approved by the sponsor.
Donations and Contributions	Unallowable	Unallowable
Entertainment Costs	Unallowable	Unallowable-includes amusement, diversion, and social activities
Equipment	Allowable only for special purpose equipment used exclusively for research, medical, scientific, or other technical activities.(Prior approval from awarding agency may be required for items with a unit cost of \$5,000 or more)	Unallowable for general purpose equipment not used exclusively for research [i.e., office equipment and furnishings, modular offices, telephone networks, AC equipment, printing equipment, etc.]
Fines and Penalties	Allowable only when incurred as a result of compliance with specific provisions of the sponsored agreement, or instructions in writing from the authorized official of the sponsoring agency	Unallowable
Fund Raising	Unallowable	Unallowable
Goods or Services for Personal Use	Unallowable	Unallowable
Housing and Personal Living Expenses	Unallowable	Unallowable
Lobbying	Unallowable	Unallowable
Losses on Other Sponsored Agreements or Contracts	Unallowable	Unallowable
Maintenance & Repair Costs	Allowable as necessary to keep property in an efficient operating condition necessary for the performance of the sponsored project. Must be approved by funding agency.	Unallowable for costs incurred for necessary maintenance, repair, or upkeep of buildings & equipment, which neither add to the permanent value of the property nor appreciably prolong its intended life.
Materials and Supplies Costs	Allowable as a direct cost when necessary for the performance of the sponsored project.	Unallowable for routine office supplies (pens, paper, disks, folders, copy charges, fax, postage, etc.)
Meals	Unallowable	Unallowable for “Entertainment Costs”
Meetings & Conferences	Allowable when the primary purpose is the dissemination of technical information directly related to the sponsored project. This includes meals, transportation, rental of facilities, speakers’ fees and other items incidental to such meetings or conferences.	Unallowable for “Entertainment Costs”
Memberships, Subscriptions & Professional Activity Costs	Allowable for the institution’s membership in business, technical, professional organizations, and subscriptions to business, professional, and technical periodicals.	Unallowable to membership in any civic or community organization, country club, social or dining club.
Patent Costs	Allowable if required by the sponsored project.	Unallowable for foreign patents

Type of Cost	Allowable as a Direct Cost	Unallowable as a Direct Cost
Preagreement Costs	Allowable with prior approval from the awarding agency.	
Professional Services Costs	Allowable when necessary for the performance of the sponsored project.	
Proposal Costs	Unallowable	Unallowable
Publication and Printing Costs	Allowable if the costs can be identified with the sponsored project. For page charges, they are allowable if the work is supported by the Federal Government and the charges are levied impartially on all research papers published, not just those funded by federally sponsored authors.	Unallowable for routine copy and printing costs.
Rearrangement and Alteration Costs	Allowable with prior approval of the awarding agency and incurred specifically for the sponsored project.	Unallowable for ordinary or normal rearrangement or alteration of facilities.
Rental Costs of Buildings and Equipment	Allowable when specifically for the sponsored project.	
Royalties and Other Costs for Use of Patents	Allowable when necessary for the performance of the sponsored project.	Unallowable when the Federal Government has a license or the right to free use of the patent or copyright; or when the patent or copyright has been adjudicated to be invalid, has been administratively determined to be invalid, is considered to be unenforceable, or has expired.
Scholarships and Student Aid Costs	Allowable only when the purpose of the sponsored agreement is to provide training to selected participants and the charge is approved by the sponsoring agency.	
Student Activity Costs	Unallowable unless specifically provided by the sponsored project.	Unallowable unless specifically provided by the sponsored project.
Termination Costs Applicable to Sponsored Agreements	Allowable for costs which would not have arisen had the sponsored agreement not been terminated, provided they meet the requirements of 2 CFR 200.471.	
Training Costs	Allowable for training provided for employee development for a specific sponsored project.	
Transportation (Freight Costs)	Allowable when related to goods purchased specifically for the sponsored project.	
Travel Costs	Allowable for transportation, lodging, subsistence and related items for employees who are in travel status on project-specific business, subject to University policy	Unreasonable travel costs are unallowable (including airfare costs in excess of the lowest available commercial discount airfare except when justified and documented)