

Allowable and Unallowable Costs

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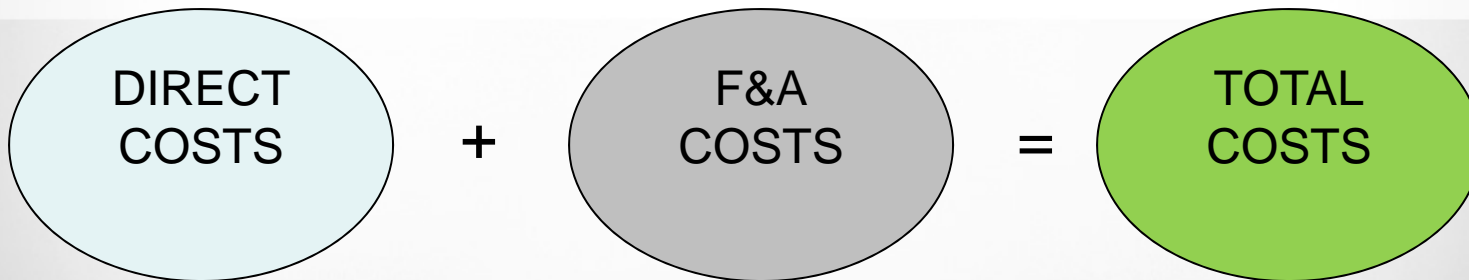
UT System Office of the Controller



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Composition of Total Cost

“The cost of a sponsored agreement is comprised of the allowable direct costs incident to the performance, plus the allocable portion of the allowable F&A costs of the institution...”(OMB A-21, Section C.1.)



Costs: Handle with Care

- Direct Costs
- F&A Costs (Indirect Costs)
- Allowable/Unallowable Costs
- Cost Principles
- Cost Transfers



Basic Concepts

- Distinguish direct and indirect costs
- Understand criteria for determining allowability of a charge under an award
- Use cost principles to determine allowability of cost



Direct Costs

- Costs easily identified and beneficial to a specific sponsored project



Direct Costs

- Examples:
 - Salaries (including benefit costs)
 - Equipment (non-expendable property with an acquisition value of \$5,000 or more and a useful life of greater than one year)
 - Expendable equipment and supplies (items costing less than \$5,000)
 - Travel costs
 - Subcontracts (require statement of work, detailed budget, budget justification, and letter of commitment)
 - Other expenses



Facilities & Administrative Costs

- Costs of doing business *not readily identified with a particular grant or contract*, but necessary for general operation of the University
- Previously known as *Indirect Costs*
- Examples: general administrative costs, postage, utilities, office supplies, and local telephone charges



Facilities & Administrative Costs

- UTS's standard rate of 13% is based on Modified Total Direct Cost Formula and is applied to all direct costs except for:
 - Equipment costs
 - Each subgrant or subcontract – after the first \$25,000
 - Tuition Remission
 - Off campus rental facility



F&A Costs Rate

- Federally negotiated rate
 - UTS: 13% of modified total direct costs
 - Example:

\$100,000	Modified direct costs
+ <u>\$ 13,000</u>	F&A costs
\$113,000	Sponsor costs



Cost Principles Goal

- Consistent charging of expenses for all sponsored agreements throughout all sponsored programs (appropriate expenses to appropriate accounts/projects)



Allowable Costs

- Costs must be allocated to sponsored projects, either as direct or indirect costs
- All costs must be:
 - Necessary
 - Reasonable
 - Allocable
 - Conform with federal, state, local laws, and/or grant terms
 - Consistently treated
 - Documented



Cost Principles: Direct Cost Characteristics

In accordance with OMB A-21, **direct costs** must be:

- Allowable:
 - Cost can be charged to a project per award documentation
- Allocable:
 - Cost can be assigned to a project that meets a specific project objective based on benefits received
- Reasonable:
 - Nature of goods and services acquired and cost involved reflect action that a prudent person would have taken under same circumstances
- Consistently Treated:
 - Like expenses must be treated in the same manner



Unallowable Costs

- Costs which may not be allocated to sponsored projects, either as direct or indirect costs
- Generally Unallowable
 - Lobbying, public relations, alcoholic beverages, entertainment, fines and penalties, first-class air travel, fundraising, and personal use items



Unacceptable Charging

Unacceptable direct charging practices include:

- Purchasing items simply to exhaust an unobligated balance
- Rotating charges among projects
- Assigning charges to an award before cost is incurred without prior approval from the sponsor
- Charging an expense to a single award when the expense clearly has supported other activities
- Transferring an overdraft from one sponsored project to another



Ask: Prior to charging expenses...

- Is the expense allowable per the sponsor and University guidelines?
- Is the item/expense directly allocable to the project?
- Does the project have funds available for the expense?
- Is the expense reasonable? Would a prudent person purchase this item under the same circumstances?



COST TRANSFERS



Cost Transfers

- After-the-fact-reallocation of costs, salary or non-salary costs from one project to another especially to/from a Federally-funded award
- Examples of typical circumstances where costs transfers are allowed:
 - Correction of a clerical error
 - Reallocation of effort and other non-labor expenses where multiple projects benefited
 - Transfer of pre-award costs



Cost Transfers

- Explain and justify transfer of charges to federal awards from other federal or non-federal accounts according to OMB Circulars A-21 & A-110 cost transfers must be:
 - Documented
 - Consistent
 - Timely and appropriate under the circumstances (90 days)
- Should be authorized by the PI responsible for the project to which cost is being transferred or by the administrator to whom the PI has delegated responsibility to authorize such transfers



Cost Transfers

- A cost transfer from one sponsored project to another may not be processed in order to:
 - cover cost overrun with funds in other projects
 - avoid restrictions imposed by the sponsor
 - or for other reasons of convenience
- Once a sponsored project account is closed and the final report has been submitted to the sponsor, *no expenses may be charged to the closed account unless it benefits the sponsor*



Audits

- All sponsored projects are subject to audit by their respective agencies or Internal Audit (OMB A-133)
- Disallowance must be charged to the non-sponsored project accounts



Questions

