

Accounting for Federal Allowable Cost

1.0 Policy Statement

All direct costs associated with a federally sponsored program must be determined as allowable, allocable and reasonable. This determination is required to support and validate all claims of both direct cost and Facilities and Administrative (F&A/Indirect Cost) reimbursements of funds from the federal sponsoring agency.

2.0 Purpose

This policy is designed to outline the University's adherence to federal regulations for determining allowability and allocability of cost.

3.0 Definitions

- 3.1 Allocable Cost – Cost that can be assigned or charged to a particular Federal award when the goods or services involved are chargeable or assignable to that Federal award in accordance with relative benefits received.
- 3.2 Allowable Cost – Any cost that conforms to the limitations outlined in federal and state regulations, award guidelines, generally accepted accounting principles and University policies. (§200.302(b)(7))
- 3.3 Direct Cost – Any cost that can be specifically identified and/or associated with a particular sponsored project/activity relatively easily with a high degree of accuracy. (§200.413)
- 3.4 Facilities and Administrative (F&A Cost) – Costs incurred and shared in support of sponsored programs, in general, but not identifiable with any single project.
- 3.5 Reasonable Cost – Any cost recognized as necessary for the performance of the sponsored project and reflects the action that a prudent person would have taken under the prevailing circumstances at the time of the decision to incur the cost.
- 3.6 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) – Federal policy and guidance issued by the Office of Management and Budget for the administration of federal grants and awards.

4.0 Additional Information

- 4.1 Determination of cost allowability, allocability and reasonableness is based upon guidance outlined the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)

- 4.2 Cost is allocable to a particular Federal award (§200.405) when–
- Is incurred specifically for the Federal award;
 - Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
 - Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.
- 4.3 Cost is allowable (§200.403) when it –
- Is reasonable and necessary for the performance of the Federal award
 - Conforms to any limitations or exclusions set forth in Uniform Administrative Guidance principles or in the Federal award;
 - Is consistently treated according to the policies and procedures of the University and funding agency;
 - Is classified consistently in like circumstances regardless of funding source;
 - Is treated in accordance with generally accepted accounting principles (GAAP);
 - Is not included to meet cost sharing or matching requirements; and
 - Is adequately documented.
- 4.4 Cost are reasonable (§200.404) when -
- The cost is necessary to the success of the project;
 - Imposed Federal, State and contractual terms and conditional restraints or requirements are satisfied; and
 - The actions taken reflect what a prudent person would take. (Prudent Person Rule)
- 4.5 Examples of direct costs include salary, travel, scholarship, subcontracts, rental of building space, consultant fees, etc.
- 4.6 Examples of indirect costs include electricity, water, utilities and other administrative research services.
- 4.7 Expenditure Monitoring: Departments are only permitted to expend the authorized award amount as stipulated in the grant or contract during the award performance period. All expenditures associated with a respective project must be initiated by the PI and goes through an internal approval

process for review and approval to ensure cost(s) adhere to the objectives and scope of the project. Sufficient documentation must be provided prior to approval.

If the expenditure(s) exceed the authorized budget or are deemed disallowed due to non-compliance within the scope of the project, the excess or disallowed amounts will be removed from the project in the following manner.

1. Determine the specific expenses that have exceeded or are unallowable based on the authorized budget.
2. The grant accountant will inform the Principal Investigator that their designated/departmental account will be charged those expenses. The recovery of indirect cost for the department will be reduced accordingly by the amount in excess or disallowed.

4.8 Implementation Procedures:

1. PI determines the needs based on the award and terms approved in the grant;
2. PI ensures that the needs meet the Office of Purchasing guidelines;
3. Department Administrative Assistant procures what is needed by the PI by means of a purchase order or by University procurement card. Both ways have multiple approver processes before expenditure is executed. Depending on the expenditure, it may require contract approval by MUW administration.
4. The PI's department staff verifies the receiving and submits for payment approval.
5. University Accounting inputs the receiving report into the Banner system which will generate an approval que to multiple approvers before payment is allocated.

5.0 Employee Adherence

Employees are required to adhere to these guidelines. Willful disregard of this policy shall be considered non-compliance. The information stated in this policy pertains and applies to applicable employees, departments and funding sources of the University.