

Policy on Allowable Costs	Effective Date: July 15, 2014
Related Policies and Procedures:	

I. GENERAL STATEMENT

The purpose of this Policy is to establish general guidelines on the allowability of costs incurred on sponsored projects and to provide specific guidance on selected items of cost related to federally funded projects. The Policy applies to all Principal Investigators (PIs), co-PIs, and any other person with a role or responsibility in the application for, receipt of, or administration of sponsored projects.

II. DEFINITIONS

- A. OMB Circular A-21: The document published by the federal government's Office of Management and Budget that sets forth the governing cost principles for educational institutions.
- B. Unallowable costs: Those expenses which are not reimbursable by the federal government.
- C. Principal Investigator: The individual designated by the University as responsible for the scientific or technical direction of the sponsored project. The Principal Investigator is also part of the University team responsible for a sponsored project's financial and administrative compliance.

III. PROCEDURE

A. Cost Principles

OMB Circular A-21 set forth four tests that govern the allowability of costs under federal sponsored projects. The tests are as follows:

1. *Reasonableness*. A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the associated dollar amount, reflect the action that a prudent person would have taken under the circumstances prevailing when the decision to incur the cost was made. One of the major considerations involved in the determination of reasonableness is necessity.

2. *Allocability.* A cost is allocable to a specific sponsored project, function, department, or other component (known as a cost objective), if the goods or services involved are chargeable or assignable to that cost objective in accordance with the relative benefits received or other equitable relationship. A cost is allocable to a sponsored project if it is (1) incurred solely in order to advance work under the sponsored project; or (2) it benefits both the sponsored project and other work of the institution (including work on other sponsored projects), in proportions that can be approximated through reasonable methods.
3. *Consistency.* UDC will be consistent in charging costs incurred for the same purpose and in like circumstances as either direct costs or Facilities & Administrative (F&A) costs, depending on their identifiable benefit to a particular sponsored project or program. Therefore, although costs may be charged to sponsored project as either direct costs or F&A costs, they must be treated consistently for all work of the organization under similar circumstances, regardless of the source of funding, so as to avoid duplicate charging.
4. *Allowability.* A cost is allowable if it is not expressly made unallowable by the OMB Circular A-21, other applicable federal agency guidance, or award terms and conditions. OMB Circular A-21, Section J provides principles to be applied in establishing the allowability of certain items of cost, irrespective of whether the item of cost is a direct cost or an F&A cost.

B. Unallowable Costs

An unallowable cost or unallowable activity is one that is not eligible for reimbursement by the federal government. OMB Circular A-21, Section J and other federal guidelines identify specific categories of costs and certain activities that cannot be charged, directly or indirectly, to federally sponsored projects.

1. The following non-exhaustive list provides a few examples of costs made expressly unallowable by OMB Circular A-21. Failure to mention a specific item of cost is not intended to imply that it is either allowable or unallowable. Determination as to allowability of costs not expressly addressed in OMB Circular A-21, other applicable federal guidance, or award terms and conditions should be based on the treatment or principles provided for similar or related items of cost. Please refer to Section J of OMB Circular A-21 for more detail.
 - Advertising (advertising for recruitment for employees or human subjects is allowable)
 - Alcoholic Beverages

- Bad Debts
- Contingency Provisions
- Donations and Contributions
- Entertainment Costs
- Fines and Penalties
- Fund Raising and Investment Costs
- Goods and Services for Personal Use
- Housing and Personal Living Expenses of Organization's Officers
- Interest Expense (with limited exceptions)
- Lobbying Costs
- Losses on Other Sponsored Agreements
- Patent Costs (with limited exceptions)
- Pre-award Costs (unless approved by the sponsoring agency)
- Selling and Marketing Costs

C. Sponsor Prior Approval

There are certain costs that require sponsor prior approval, such as costs incurred prior to the award of the sponsored project. UDC will ensure that, when required, it obtains sponsor prior approval and will maintain a record of approvals granted.

D. Failure to Comply with Allowable Costs Policy

Failure to comply with the Policy set forth above may result in disciplinary action up to and including termination of employment.

IV. EMPLOYEES OF OTHER DISTRICT OF COLUMBIA AGENCIES

To the extent the foregoing Policy is relevant to employees of District of Columbia agencies over whom the University lacks personnel authority, the University will work in good faith with those employees to effectuate adherence to the Policy.

V. CONTACTS

University Office of the Chief Financial Officer
University Office of Sponsored Programs

VI. COMMITTEES REVIEWING/APPROVING PROCEDURE:

Sponsored Programs Policy Committee
Audit, Administration and Governance Committee of the Board of Trustees
Board of Trustees of the University of the District of Columbia

HISTORY/REVISION DATES

Last Amended Date: July 10, 2014

Next Review Date: