



Policy Number:	2.022
Originating Office:	Financial Affairs
Responsible Executive:	Vice President of Financial Affairs
Date Issued:	10/13/11
Date Last Revised:	10/13/11

Allowable and Unallowable Costs on Federal and State Sponsored Awards

Policy Contents

I. Reason for this Policy.....	1
II. Statement of Policy	1
III. Definitions.....	2
IV. Procedures	3
V. Related Documents, Forms and Tools.....	3

I. REASON FOR THIS POLICY

This policy outlines the general procedures for determining allowable costs on federal and state 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 OMB Circular A-21 (A-21) 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 A-21 as described below.

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

1. The cost is reasonable; it reflects what a prudent person might pay.

2. The cost is allocable; the contract or grant that paid the expense benefits from it. For a cost to be allocable, it must meet one of the following criteria:
 - a. It is incurred solely to advance the work under the sponsored agreement.
 - b. It benefits the sponsored agreement and the work of the institution, in proportions that can be approximated through the use of reasonable methods.
 - c. It is necessary to the overall operation of the institution and is deemed to be assignable in part to sponsored projects.
3. The accounting treatment of the cost is consistent across the campus.
4. The cost is allowable as defined by OMB Circular A-21 and/or by the terms of the particular award.

Unallowable Costs

An unallowable cost is a cost that cannot be paid by a grant or contract. Such costs may be expressly prohibited by A-21 or may be considered unallowable under USD policies or by mutual agreement with the granting agency.

III. DEFINITIONS

OMB CIRCULAR A-21. COST PRINCIPLES FOR EDUCATIONAL INSTITUTIONS – Issued by the Office of Management and Budget in order to establish principles for determining costs applicable to grants, contracts, or other agreements with educational institutions.

REASONABLE COSTS - A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are:

- (a) Whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement;
- (b) The restraints or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions;
- (c) Whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal 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 agreements.

SPONSORED AWARD OR SPONSORED PROJECT – Any grant, contract, or other agreement between USD and the federal government or the state government.

IV. PROCEDURES

Unallowable Costs

Costs that are prohibited by A-21 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
7. Fines and penalties
8. Fund raising and investment costs
9. Housing and personal living expenses for University officers
10. Memberships in any civic or community organization
11. Royalties or patents
12. Selling and marketing
13. Student activity costs incurred for intramural activities, student publications, student clubs, etc.

It is important to read the specific provisions of A-21 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.

V. RELATED DOCUMENTS, FORMS AND TOOLS

OMB Circular A-21: http://www.whitehouse.gov/omb/circulars_a021_2004/