

# University of Missouri System

## Accounting Policies and Procedures



**Policy Number:** APM-60.07

**Policy Name:** Allowable Costs and Cost Principles

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### **General Policy and Procedure Overview**

This policy outlines the general policies for allowability and the importance of assigning correct Account numbers to expenses to ensure proper treatment of costs. The cost principles also identify those charges that typically cannot be charged to sponsored awards and are considered unallowable expenses. Office of Management and Budget (OMB) 2 CFR 200 - Uniform Guidance, identifies costs that may be charged to federal awards.

### **Definition of Key Terms:**

Allocable: A cost incurred specifically for the program, or several activities but can be distributed between them in reasonable proportion to benefits received, and is clearly necessary to the program.

Allowable: Costs directly related to the performance of a sponsored award and permitted under its terms and OMB guidance that must be reasonable, necessary, allocable, and treated consistently with generally accepted accounting principles.

Consistent Treatment: A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.

Direct Cost: Costs specifically identified with a sponsored award that can be readily and specifically assigned to such award (e.g., salaries, fringe benefits, consultants, equipment, travel, participant costs, and subcontracts).

Facilities and Administrative (F&A)/Indirect Costs: Costs incurred for common or joint objectives and therefore cannot be identified readily and specifically with a particular sponsored award (e.g., depreciation of buildings and equipment, computing infrastructure, administrative services, utilities, and custodial services).

Integral: the nature and purpose of the sponsored program lends itself to these types of personnel being essential in the completion and fulfillment of the stated aims and objectives.

Reasonable: Costs do not exceed those that would normally be incurred by a prudent person.

### **Detailed Policy and Procedure:**

The Office of Management and Budget developed the Uniform Guidance (2 CFR, Part 200 Subpart E) to describe the treatment of costs on sponsored project activities (direct and indirect) that can be billed to

the federal government. The Uniform Guidance applies to all federally funded projects including federal funding through a non-federal agency.

### **Allowable Costs**

A cost that is allowable must also be:

- Necessary and reasonable for the performance of the award and be allocable.
- Conform to any award limitations or exclusions.
- Consistent with policies and procedures that apply to both Federal and other non-Federal activities.
- Consistently treated.
- Determined in accordance with generally accepted accounting principles (GAAP).
- Not included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- Adequately documented.

The [OMB Uniform Guidance](#) (§200.420 through §200.475) lists costs that are allowable and not allowable as an expense on a Federal award. Many sponsors have policies that address costs that are allowable.

### **Reasonable Costs**

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Typical tests to determine if a cost is Reasonable:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state and other laws and regulations; and terms and conditions of the Federal award.
- Market prices for comparable goods or services for the geographic area.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.
- Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

### **Allocable**

A cost is applicable to a particular sponsored project to the extent in which the sponsored project benefits from the expense. Expenditures should be allocated to accounts in accordance to the benefit or use to be expected from the good or service.

This standard is met if the cost:

- Is incurred specifically for the sponsored project;
- Benefits both the sponsored project and other work of the University and can be distributed in proportions that may be approximated using reasonable methods; and
- Is necessary to the overall operation of the University and is assignable in part to the sponsored project.

### **Direct Costs**

A direct cost is one where a specific grant or contract gains explicit benefit from that cost for a specific programmatic purpose. Examples of common direct costs expenses are: salaries, wages, fringe benefits, materials and supplies, equipment, tuition, travel, etc.

- The **salaries of administrative and clerical staff** should normally be treated as indirect (F&A) costs. Direct charging of these costs may be appropriate only if **all** of the following conditions are met:
  - a) Administrative or clerical services are integral to a project or activity;
  - b) Individuals involved can be specifically identified with the project or activity;
  - c) Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency; and
  - d) The costs are not also recovered as indirect costs.
- Materials and supplies used for the performance of a sponsored project may be charged as direct costs. In the specific case of **computing devices**, charging as direct costs is allowable for devices that are essential and allocable, but not solely dedicated, to the performance of a Federal award. Computing devices means machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or “peripherals”) for printing, transmitting and receiving, or storing electronic information and acquisition cost of less than \$5,000.

### **Indirect Costs**

Indirect Costs are costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

Indirect costs at higher education institutions are infrastructure costs of the University needed to support the programs of the institution, including research and other sponsored programs. Building depreciation, maintenance costs, the cost of electricity and heat, accounting services, personnel services, departmental administration, purchasing, and human subjects administration are examples of indirect costs.

### **Documentation**

All costs on federal sponsored projects must be allowable, allocable and reasonable in addition to being verified by someone in the position to know the appropriateness of the charge (e.g., the PI). The PI may delegate some of the duties associated with daily financial management of the award to appropriate staff in accordance with [APM 2.25.55.01 Segregation of Duties-Sponsored Programs](#), however, the PI retains full responsibility for all activity on the award. Appropriate documentation must be maintained by the Department in accordance with University Records Retention Policy and the terms and conditions of the award.

At the end of the award, the PI must certify that all expenditures reported in the general ledger for an award are allowable in accordance with provisions of the award documents and, where required, corrections have been or will be made. If the PI is not available, an individual with direct knowledge of the project (i.e., PI's delegate or the Departmental Research Administrator) may certify on the PI's behalf.

### **Expense Transfers**

It is expected that costs will be posted to the correct grant or contract at the time of purchase. However, in the event the transfer of a charge is required, the transfer should be made as soon as the need for correction is identified. For payroll correcting entries, departments must transfer the costs within two months (60 days) after the end of the month in which the original transaction occurred. If the payroll correcting entry is not made within the two month period, a payroll correcting entry form must be completed and submitted to the Sponsored Programs Office for processing.

### **Cost Share**

For all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be allowable under Subpart E—Cost Principles of the OMB Uniform Guidance.

## **Responsibility:**

### Principal Investigator (PI):

Ensure that all disbursements from the award are:

- Reasonable and necessary to accomplish the project goals
- Allowable per the terms of the award and applicable regulations
- Properly authorized and documented
- Within the period of availability
- Reviewed timely and documented

### Department Fiscal Staff:

- Monitor for unallowable costs
- Timely transfer of unallowable costs

### Sponsored Programs Office (SPO):

- Process salary transfers that are older than 2 months after the original payroll posting date
- Monitor sponsored awards for unallowable costs

*Effective Date: July 1, 2009*  
*Revised Date: December 26, 2014*

### **Questions and Comments?**

Questions regarding interpretation and implementation of the Accounting Policy should be directed to the Campus Accounting Office. Suggested edits or revisions to the policy should be directed to the Office of the Controller.