

PROCEDURE – Determination of Allowable vs. Unallowable Expenses

Background and Purpose

In order to comply with Uniform Guidance Section 200.302(b)(7) which requires “Written procedures for determining the allowability of costs in accordance with Subpart E—Cost Principles of this part and the terms and conditions of the Federal award”, Mississippi State University provides the following guidance:

Direct and indirect costs must be allowable, allocable, and reasonable in order to be charged to the Federal Government. Since Service Centers frequently bill Federal Awards, this procedure applies to them as well.

The three cost principles are explained in greater detail in the Uniform Guidance.

§200.403 Factors affecting **allowability** of costs.

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) Be accorded 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.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) Not be 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. See also §200.306 Cost sharing or matching paragraph (b).
- (g) Be adequately documented. See also §§200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

§200.404 **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. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) 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.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) 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.
- (e) 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.

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§200.405 **Allocable** costs.

- (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
 - (1) Is incurred specifically for the Federal award;
 - (2) 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
 - (3) 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.

(b) All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.

(c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

(d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also §§200.310 Insurance coverage through 200.316 Property trust relationship and 200.439 Equipment and other capital expenditures.

(e) If the contract is subject to CAS, costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.

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Direct Costs: Costs that can be specifically and readily identified with a particular project or activity. OMB A-21, 2 CFR 200, Subpart E and the Cost Accounting Standards require costs to be accumulated and reported at the same level proposed in the budget. For example, if "scientific supplies" are listed in the grant proposal, then this expense code must be used to charge these supplies. "General Supplies" would not provide sufficient detail and would place us out of compliance.

Facilities and Administrative (F&A) Costs: Costs that are incurred by the Institution for common or joint objectives and cannot be identified specifically with a particular project or program. These costs also are known as "indirect costs" or "overhead". When charging costs that are typically "indirect" directly to federal awards, use object codes that clarify allocability/allowability. By way of example, "long distance calls" are usually allowed as a direct

cost. "Local calls" are typically not allowable unless the nature of the award is one where an inordinate amount of local calls is required (e.g., a survey grant).

Once a determination of allowability, reasonableness, and allocability has been made, it is important that all expenses be charged to the appropriate expenditure account code and program. Refer to http://www.controller.msstate.edu/records/training/Active_Expense_Accounts.pdf.

Budget and expenditure information recorded in the accounting system serves the basis for (a) the preparation of the yearly financial statements of the University; (b) department-level planning and reporting; (c) fund specific planning and reporting; (d) Facilities and Administration Cost proposal preparation and rate calculation; and (e) audit reviews and many other uses.

The hierarchy to determine the allowability of a cost includes:

1. Federal Award Terms and Conditions. If the Federal Award Terms and Conditions does not explicitly state whether a particular cost is allowable or unallowable, then go to the next step.
2. Uniform Guidance. An itemized list of common costs is located in the table below. Please refer to the specific section in the Uniform Guidance to determine if the cost is allowable or unallowable at the following link <https://www.ecfr.gov/cgi-bin/text-idx?node=2:1.1.2.2.1&rgn=div5>

§200.421	Advertising and public relations
§200.422	Advisory councils
§200.423	Alcoholic beverages
§200.424	Alumni/ae activities
§200.425	Audit services
§200.426	Bad debts
§200.427	Bonding costs
§200.428	Collections of improper payments
§200.429	Commencement and convocation costs
§200.430	Compensation—personal services
§200.431	Compensation—fringe benefits
§200.432	Conferences
§200.433	Contingency provisions
§200.434	Contributions and donations
§200.435	Defense and prosecution of criminal and civil proc
§200.436	Depreciation
§200.437	Employee health and welfare costs
§200.438	Entertainment costs
§200.439	Equipment and other capital expenditures

§200.440	Exchange rates
§200.441	Fines, penalties, damages and other settlements
§200.442	Fund raising and investment management costs
§200.443	Gains and losses on disposition of depreciable assets
§200.444	General costs of government
§200.445	Goods or services for personal use
§200.446	Idle facilities and idle capacity
§200.447	Insurance and indemnification
§200.448	Intellectual property
§200.449	Interest
§200.450	Lobbying
§200.451	Losses on other awards or contracts
§200.452	Maintenance and repair costs
§200.453	Materials and supplies costs, including costs of c
§200.454	Memberships, subscriptions, and professional activities
§200.455	Organization costs
§200.456	Participant support costs
§200.457	Plant and security costs
§200.458	Pre-award costs
§200.459	Professional service costs
§200.460	Proposal costs
§200.461	Publication and printing costs
§200.462	Rearrangement and reconversion costs
§200.463	Recruiting costs
§200.464	Relocation costs of employees
§200.465	Rental costs of real property and equipment
§200.466	Scholarships and student aid costs
§200.467	Selling and marketing costs
§200.468	Specialized service facilities
§200.469	Student activity costs
§200.470	Taxes (including Value Added Tax)
§200.471	Termination costs
§200.472	Training and education costs
§200.473	Transportation costs
§200.474	Travel costs
§200.475	Trustees

Responsibilities/Procedures

Office of Sponsored Projects (OSP)

OSP reviews the project "...budget for compliance with MSU policies, cost accounting standards and sponsor guidelines" per Faculty and Staff Guide to Office of Sponsored Projects November 2012. (http://spa.msstate.edu/pdf/FacultyandStaffGuideNovember_2012.pdf)

Department

Departments, specifically the Principal Investigator (PI), determine if costs are unallowable or allowable. If unallowable, they ensure the costs are not billed to the Federal government via Restricted Funds.

Service Center

Service Centers, specifically the Director, determine if costs are unallowable or allowable. If unallowable, they ensure the costs are not billed to the Federal government via Restricted Funds.

Sponsored Programs Accounting (SPA)

SPA compares the expense with the approved Budget. If an expense is considered unallowable, SPA makes a JV entry reversing the expense from the Restricted Fund and charges the Department.

Cost Accounting

Cost Accounting removes Unallowable Costs from the F&A Cost Rate Proposal.

Training

Training on Unallowable Costs is provided by the Office of Sponsored Projects, Sponsored Programs Accounting, and Cost Accounting.

Questions

Please contact the Office of Sponsored Projects or Sponsored Programs Accounting if you have any questions regarding the allowability of a cost.

QUICK DECISION GUIDE

Is the charge allowable? For a cost to be allowable, it must conform to:

- Terms and conditions of the agreement, and/or
- Uniform Guidance

Is the charge allocable to the project? When allocating charges between projects, ask:

- Are the expenses allocated on a consistent basis?
- Is the method of allocating expenses between projects sound?
- Is the expense allocation clearly documented?

Is the charge reasonable? To determine if a cost is reasonable, ask:

- Is it necessary for performance of the award?
- Does it advance the scope of work?