

EASTERN MICHIGAN UNIVERSITY

Allowability, Reasonableness And Allocation of Costs for Sponsored Projects Policy

PURPOSE:

When Eastern Michigan University accepts an award from a sponsor for specific program or project it required to manage those funds to ensure that any costs incurred are directly related to the project. In addition, some individual rewards may include special terms and conditions that must be considered when incurring costs. This policy addresses the allowability, reasonableness, and allocation of costs on sponsored contracts and projects.

PROCEDURE:

Allowable Costs

All costs must be allowable under federal regulations and sponsored terms, including program specific requirements and university policy. To be allowable costs it must be:

- Reasonable and necessary
- Allocable to federal sponsored programs under the principles and methods provided in OMB Circular A-21 and CFR 200 – Subpart E
- Given consistent treatment; and
- Conform to any limits or exclusions set forth in A-21, CFR 200 – Subpart E, or the terms and conditions of the sponsored award.

OMB Circular A-21 Section J spells out in detail the allowability of particular elements of cost. CFR 200 – Subpart E covers the “cost principles” as described by the federal government. Any questionable cost needs to be reviewed by Sponsored Accounting before it incurred.

Costs that are typical charged direct to sponsored fund/contract include:

- Compensation of employees for their work on sponsored programs, including fringe benefits.
- Costs of material expended or consumed on sponsored programs
- Travel in accordance with Eastern Michigan University policy and sponsored allowable travel expense.
- Other allowable items or expenses that were incurred for direct benefit to the sponsored program. (Please see OMB A-21 or CFR 200 – Subpart E)

Reasonable and Necessary Costs

OMB Circular A-21 defines a cost as reasonable if the goods and services and the amount involved, reflect the actions that a prudent person would have taken under the prevailing circumstances when the decision to incur the cost was made.

- Important considerations in determining the reasonableness of costs are:
 - Is the cost generally recognized as necessary for the performances of the sponsored program?
 - Have all of the requirements or restraints by federal or state laws and regulations, sponsored agreement terms and conditions been satisfied?
 - Is the actions taken with respect to the incurrence of cost consistent with established institutional policies and procedures to the work of the sponsored program?

Allocation of Costs

A cost is able to be allocated to a particular sponsored program if the goods or services involved are chargeable or assignable to such program in accordance with a relative benefit received or other equitable relationship. Every incurred cost must have direct benefit to the sponsored program being charged.

- In general, a cost is allocable to a particular sponsored program if it fulfills one of the following conditions:
 - It is incurred solely to advance the work under the sponsored program or;
 - It is necessary to the overall operation of the institution and principles provided in OMB A-21, is to be assignable in part to sponsored programs.

Unallowable Cost

Circular A-21 describes the costs that are eligible for reimbursement under federal grants and contracts (allowable costs), and the costs that are not eligible for reimbursement (unallowable costs). Refer to section J of A-21 that contains specific allowable and unallowable cost provisions. The unallowable cost(s) are transferred to discretionary fund.

CFR 200 – Subpart E describes allowable, reasonable, and allocable costs allowed on an award. If there are any questions on if a cost is allowed or not, you should work with your program officer to get prior, written approval regarding the cost. You will need to forward this approval to Sponsored Accounting to add to the award file and approve the expense.