



University of Pittsburgh

FINANCIAL GUIDELINE

Subject: Allowability of Costs

I. Guideline Background

An **allowable cost** is one that can be paid by a sponsored project or program. This includes both direct and indirect costs that meet certain criteria, as outlined in the following guideline.

II. Scope

This guideline details the requirements for determining the allowability of direct and indirect (Facilities and Administrative or F&A) costs on the University's financial accounting records in accordance with Federal regulations, sponsoring agency requirements, and University accounting standards. This guideline also establishes the responsibility of the Principal Investigator (PI), the Department Chair, and the Departmental Administrator to ensure the allowability of the costs recorded on their sponsored projects and departmental accounts. Finally, this guideline sets forth the responsibility of the Director of Sponsored Projects Accounting to provide departmental support on cost allowability issues related to OMB Uniform Guidance (UG), and to perform periodic reviews to ensure compliance and integrity of the University's accounting for sponsored projects.

This guideline applies to all faculty and staff who record costs on the accounting records of the University, and to all sources of University funding, including unrestricted, restricted, endowment, and plant funds.

III. Definitions

The following definitions shall apply throughout this guideline:

Allocate – to assign an item of cost, or group of costs, to one or more Cost Objectives in reasonable proportion to the benefits provided

Cost objective – a function, activity, organizational subdivision, sponsored project, or other unit for which cost data are desired and for which provision is made to accumulate and measure the cost

Departmental / Research Administrator (DA) – individual who is responsible for the original financial accounting, budgeting, and administration of the sponsored projects of a department or Principal Investigator



University of Pittsburgh

FINANCIAL GUIDELINE

Subject: Allowability of Costs

Direct cost – a cost that can be identified specifically with a particular sponsored project, instructional activity, or other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy

Directly associated cost – a cost that is generated solely due to the incurrence of another cost, and which would not have been incurred had the other cost not been incurred; for example, the fringe benefit costs that are generated proportionately as salary costs and charged to a University account are considered to be *directly associated* with the salary costs

Indirect or Facilities and Administrative (F&A) costs – those costs that are incurred for common or joint purpose and benefit more than one cost objective, and therefore cannot be identified readily and specifically with a particular sponsored project, instructional activity, or other institutional activity

Principal Investigator (PI) – individual designated by the sponsoring agency who is responsible and accountable for the proper conduct and direction of the project or activity. At the discretion of the Dean, a PI for sponsored projects is typically a tenured or tenure stream faculty member, but can also be another member of the academic community such as a research associate or non-tenure stream research/clinical faculty. More information about the rights and responsibilities of PIs can be found in University policy [RI 08 "Responsibilities of Sponsored Research Investigators"](#) (formerly policy 11-01-02).

IV. Guideline

The total costs of a sponsored project are comprised of the allowable direct costs integral to the performance of the project, plus the allocable portion of the indirect costs of the institution.

It is the University's responsibility, and not the responsibility of the Federal agency or other sponsor, to ensure that costs budgeted and accounted for on a sponsored project are allowable, allocable, and reasonable.

In summary, costs are recoverable on sponsored projects if they meet all of the following criteria:

- Allowable
- Not expressly or mutually agreed to be unallowable
- Reasonable
- Allocable



University of Pittsburgh

FINANCIAL GUIDELINE

Subject: Allowability of Costs

- Consistently accounted for

Consequences of noncompliance with the proper determination of the allowability of costs can result in the assessment of fines and penalties to the University. Proper recording of costs in the University's accounting records facilitates the accounting for sponsored projects and, critically, the preparation of the University's F&A cost rate.

A cost is **allowable** if it meets the following general criteria:

- It is necessary and reasonable for the performance of the award and is allocable thereto
- It conforms to any limitations or exclusions set forth by the sponsoring agency's regulations or guidelines
- It is consistent with policies and procedures applicable uniformly to both federal and non-federal sponsored projects
- It is accounted for, and treated consistently between, federal and non-federal sponsored projects in like circumstances
- It is accounted for in accordance, and treated consistently, with generally accepted accounting principles (GAAP)
- In the case of federally sponsored projects, it is not also included as a cost, or used to meet cost sharing requirements, of any other federally funded project
- It is adequately documented

Note: Allowable costs identified as distributed incorrectly to a particular cost objective must be identified and transferred to other soft funding (sponsored) as appropriate and must be completed within 90 days of the original incurred date. See also Cost Transfers and Direct Charging Practices guidelines.

Even when a cost meets these criteria, it may still not be eligible for recovery on a particular sponsored project:

- An **expressly unallowable cost** is unallowable per applicable law or regulation. For example, charging alcoholic beverages to federally funded projects is unallowable in accordance with 2 CFR 200, OMB Uniform Guidance (OMB UG). See Appendix I to this guideline for a comprehensive list of costs that are expressly unallowable in accordance with OMB UG.
- A **mutually agreed to unallowable cost** is unallowable by mutual agreement between the University and the sponsor. This agreement may



University of Pittsburgh

FINANCIAL GUIDELINE

Subject: Allowability of Costs

be documented via contract or other award document processed by the University's Office of Sponsored Programs.

Note: Expressly and or mutually agreed unallowable costs of federal awards need to be transferred in a timely manner to University hard funds available to the initiating department. Unallowable costs cannot be charged either directly or indirectly to sponsored awards.

A cost is **reasonable** if it does not exceed, in nature or amount, that which a prudent person would incur under similar circumstances. When determining reasonableness, consider the following:

- Whether the cost type is generally recognized as ordinary and necessary for the efficient performance of the sponsored project (direct cost) or for the general operation of the institution (indirect cost).
- Whether there are any applicable requirements imposed by sound business practices, arm's-length bargaining, federal and state laws and regulations, or sponsored project terms and conditions (see expressly and mutually agreed to unallowable costs, above).
- Market prices for comparable goods and services for the geographic area. For example, large metropolitan areas may support higher costs for similar items in comparison with more rural areas.
- Whether or not the individual(s) involved in incurring the cost acted with prudence in the circumstances, considering their responsibility to the institution, its employees, its students, the federal government, and the public at large.

A cost is **allocable** to a particular cost objective if the goods or services are chargeable or assignable to that cost objective in proportion with the relative benefits received or other equitable distribution. A cost objective is defined as a specific program, function, sponsored project, non-sponsored project, or department account. A cost can be allocable to a cost objective either as a direct cost or indirect cost, but not both. When determining allocability, consider whether the cost:

- Is incurred specifically to advance the work under the sponsored project or activity.
- Benefits both the sponsored project and other work of the institution and can be distributed in proportions that can be approximated through use of reasonable methods.
- Is necessary to the overall operation of the institution and is assignable in part to sponsored projects.



University of Pittsburgh

FINANCIAL GUIDELINE

Subject: Allowability of Costs

- If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should 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 the costs may be allocated or transferred to benefitted projects/activities on any reasonable documented basis.

Any cost allocable to a particular sponsored project may not be shifted to other sponsored projects in order to:

- meet deficiencies caused by overruns or other funding considerations
- avoid restrictions or caps imposed by regulations or by terms of the sponsored project
- simplify the accounting for sponsored projects or for other reasons of convenience

Any costs allocable to non-federal activities may not be shifted to federally sponsored agreements or activities.

Costs are **consistently accounted for** when, based on the applicable facts and circumstances of the costing situation, they are:

- accounted for in accordance with the applicable GAAP
- accounted for in accordance with the University's accounting practices disclosed in its Cost Accounting Standards Disclosure Statement (DS-2) submitted to the U.S. Government
- consistently recorded as either direct or indirect costs
- consistently recorded as either allowable or unallowable costs
- consistently recorded to federal and non-federal sponsors without bias
- consistently recorded to the same sponsor

It is essential that each item of cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect cost across all University ledgers in order to avoid possible double-charging of Federal awards.

Expressly and or mutually agreed unallowable costs of federal awards need to be transferred in a timely manner to University hard funds available to the initiating department. Unallowable costs cannot be charged either directly or indirectly to sponsored awards. Allowable costs identified as distributed incorrectly to a particular cost objective may be transferred to other soft funding (sponsored) as appropriate.



University of Pittsburgh

FINANCIAL GUIDELINE

Subject: Allowability of Costs

V. References

OMB UG 200.402

OMB UG 200.403

OMB UG 200.420

Cost Accounting Standards:

48 CFR 9905.501

48 CFR 9905.502

48 CFR 9905.505

NIH Grants Policy Statement, 7 Cost Consideration

NSF PAPP Guide, Chapter 5 Allowability of Costs

[University of Pittsburgh, RI 08 "Responsibilities of Sponsored Research Investigators"](#) (formerly policy 11-01-02)



University of Pittsburgh

FINANCIAL GUIDELINE

Subject: Allowability of Costs

APPENDIX I Summary of OMB UG Expressly Unallowable Costs

Reference
OMB Uniform
Guidance Section
200

Category

- | | |
|----------|---|
| .421 | Advertising and public relations costs such as costs of meetings, conventions, convocations, displays, demonstrations, exhibits, shows, special events, hospitality, promotional items, gifts, souvenirs, memorabilia and other advertising and public relations designed to promote the institution including directly associated costs |
| .422 | Costs of Advisory councils or committees are unallowable as a direct cost of a sponsored project |
| .423 | Alcoholic beverages including those costs incurred while on travel status |
| .424 | Costs of Alumni activities |
| .426 | Bad debt expense |
| .429 | Commencement and convocation costs |
| .431 (f) | Automobile costs for personal use furnished by the Institution |
| .433 (c) | Contingency provisions (reserves) |
| .434 | Contributions and Donations (from the Institution to other entities) |
| .438 | Entertainment costs and social activities. |
| .439 | Capital expenditures for general purpose equipment, buildings and land unless approved in advance by the sponsoring agency. |
| .441 | Fines, penalties, damages and other settlements |



University of Pittsburgh

FINANCIAL GUIDELINE

Subject: Allowability of Costs

Reference
OMB Uniform
Guidance Section
200

Category
~~Category~~

- .442 **Fund raising** and investment management costs
- .445 **Goods or services for personal use** of Institution's employees such as housing, and personal living expense
- .450 **Lobbying** costs, including executive lobbying costs
- .451 **Losses on other awards or contracts** – any excess of costs over revenue (overruns) on sponsored projects including the transfer of excess costs over authorized funding levels from any sponsored project to another sponsored project
- .454 **Memberships, subscriptions and professional activity costs** in any country club, social or dining club or organizations; in organizations whose primary purpose is lobbying; and any direct charge to a sponsored project unless budgeted for and approved in advance by the sponsor as to grant relatedness. (Note: To be allowable as a direct cost, such costs must also meet the definition of a direct cost and the allocability criteria of the UG)
- .458 **Pre-award costs** incurred prior to the effective date of the sponsored project where such costs are necessary for efficient and timely performance of the scope of work, which would have been allowable if incurred after the effective date of the sponsored project, without the prior approval of the sponsoring agency
- .463 **Recruiting costs** where special salary allowances or fringe benefits are incurred to attract personnel that are unreasonable, or do not conform with established institutional policies and procedures; and also where the newly hired employee is charged direct to a sponsored project and the employee resigns within 12 months after hire for reasons within the employee's control



University of Pittsburgh

FINANCIAL GUIDELINE

Subject: Allowability of Costs

Reference
OMB Uniform
Guidance Section
200

Category

- | | |
|------|--|
| .464 | Certain Relocation costs of employees such as cost of acquiring a new home, loss on the sale of a former home, mortgage payments on the home being sold and income taxes on reimbursed relocation costs |
| .467 | Costs of Selling and marketing any products or services of the institution without prior approval of the awarding agency when necessary for the performance of the sponsored project |
| .469 | Student activity costs such as intramural activities, student publications, student clubs, etc. |
| .474 | Travel costs for dependents and alcoholic beverages while on travel status |