

Wittenberg University

Sponsored-Projects Fiscal Management Guidelines

Procedures on Accounting for Allowable and Unallowable Costs

PURPOSE

Wittenberg University is responsible for ensuring that costs charged to a sponsored agreement are allowable, allocable, and reasonable under the cost principles. Its internal controls ensure that no one person has oversight over all aspects of financial transactions. Unallowable costs, excess costs, and increased costs due to noncompliance or changes in cost accounting practices shall be adjusted or refunded. Wittenberg's practices used in estimating costs in pricing a proposal and its cost accounting practices are consistent with its general cost accounting practices used in accumulating and reporting costs. The fiscal year is Wittenberg's cost accounting period.

These procedures refer to allowable costs for sponsored projects and are guided by OMB Circulars A-21, A-87 (government entities), A-122 (nonprofits; "does not apply to colleges and universities which are covered by Circular A-21") on Cost Principles and OMB Circulars A-102 (government entities) and A-110 (higher education institutions) on Administrative Requirements for Grants; and the Uniform Guidelines 2-CFR-200.

DEFINITIONS

Direct Costs. Those costs that can be identified specifically with a particular sponsored project, an instructional activity, or any other institutional activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Typically these costs include: salaries and benefits for work under the sponsored agreement; costs of materials consumed in the performance of the work.

Indirect Costs. Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefitted. The indirect costs shall be distributed to applicable sponsored agreements and other major institutional functions on the basis of modified total direct costs. Wittenberg negotiates an indirect cost rate with the Federal government (See *Procedures on Distribution of Indirect Costs from Grants*).

Allowable Costs. In addition to meeting the specific standards for allowability under the Uniform Guidance Subpart E – Cost Principles, costs must meet certain general criteria to be allowable for federally-sponsored projects. All allowable cost must be reasonable, allocable to the sponsored project, given consistent treatment through application of those generally accept accounting principles appropriate to the circumstances, and conform to any limitations or exclusions set forth in the Federal Guidance or in the sponsored project agreement as to the types or amounts of cost items.

A cost may be considered reasonable if the nature and amount of the cost reflect actions that a prudent person would have taken under circumstances prevailing at the time. Among other factors, a reasonable cost is one generally recognized as necessary for the operation of the institution or the performance of the sponsored project, and is consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored projects.

A cost is allocable to a sponsored project if it, 1) is incurred specifically to advance the work under the sponsored project, 2) benefits both the sponsored project and other work of the institution in proportions that can be approximated through the use of reasonable methods, or 3) is necessary for the overall operation of the institution and is deemed to be assignable in part to sponsored projects through indirect costs.

Allowable costs can include:

- Marketing and public relations
- Advisory council activity costs
- Costs of audits
- Costs of bonding
- Communications costs (i.e., telephone, postage, email services, etc.)
- Salaries, wages, and fringe benefits for work performed directly on sponsored agreements and for other work allocable as indirect costs
- Salaries and expenses for Deans of faculty and graduates schools and staff
- Depreciation and use allowances for building and equipment that can be allocable to sponsored agreements
- Employee morale, health, and welfare costs (i.e., publications, activities, counseling services, etc.)
- Capital expenditures for special purpose equipment, provided that items with a unit cost of \$5000 or more have prior approval of the awarding agency
- Costs related to the physical custody and control of monies and securities
- Costs of insurance required or approved, and maintained, pursuant to the sponsored agreement
- Medical liability insurance only to the extent that the research involves human subjects
- Interest on debt to acquire or replace capital assets and used in support of the sponsored agreement (conditions, A-21, p. 38)
- Labor relations costs
- Maintenance and repair of buildings and equipment
- Materials, supplies, and fabricated parts necessary to carry out a sponsored agreement
- Meeting and conferences to disseminate technical information
- Memberships, subscriptions and professional activity costs
- Patent costs (exceptions, A-21, p. 42)
- Routine and homeland security to protect facilities, personnel, and work products
- Professional service costs
- Proposal costs
- Publication and printing costs
- Ordinary rearrangement and alteration of facilities; special arrangement costs incurred for the project with prior approval of the sponsoring agency
- Reconversion costs for buildings
- Recruiting costs for staff
- Rental costs of building and equipment
- Royalties and other costs for the use of patents (conditions, A-21, p.45)
- Scholarships, fellowships, and other program of student aid only when the purpose of the sponsored agreement is to provide training to selected participants and the charge is approved by the sponsoring agency
- Costs for use of specialized service facilities (i.e., computes, wind tunnel, reactors, etc.)
- Taxes

- Training provided for employee development
- Transportation costs
- Travel costs for employees on official business of the institution
- Travel and subsistence costs of trustees (or directors)

Unallowable Costs. An unallowable cost is defined as any cost which, under the provisions of any pertinent law, regulation, or sponsored project cannot be included in prices, cost reimbursement, or settlements under the federally-sponsored project to which it is allocable. A cost may be either expressly unallowable or directly associated with unallowable activities.

Unallowable costs include:

- Alcoholic beverage costs,
- Alumni/ae activity costs
- Bad debt
- Commencement and convocation costs
- Contingency provisions
- Costs incurred in connect with any criminal, civil, or administrative proceeding
- Donations and contributions
- Entertainment costs (i.e., amusement, social activities for meal, lodging, tickets, rentals, transportation, and gratuities, etc.)
- Capital expenditures for general purpose equipment, building, and land (including improvements) are unallowable as direct charges, except where approved in advance by the awarding agency
- Fines and penalties resulting from institutional non-compliance with government laws and regulations
- Fundraising and investment costs
- Goods or services for personal use of employees
- Housing and personal living expenses of employees
- Cost of “idle” facilities (A-21, p.37)
- Cost of insurance with respect to any costs incurred to correct defects in the institution’s materials or workmanship
- Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of the institution’s own funds
- Lobbying costs
- Excess costs over income under any other sponsored agreement or contract
- Membership in any civic or community organization, country club, social, or dining club
- Selling and marketing any products or services of the institution
- Student activity costs unless specifically provided for in the sponsored agreement

REVIEWING PROGRESS AGAINST BUDGET

Principal Investigators are expected to review their budget(s) for accurate expenditures, and progress against budget on a quarterly basis. In this way the Principal Investigator can identify and correct for cost overruns or under-spending. Any corrections that require a cost transfer must be documented and submitted on the *Cost Transfer Form*. The Business Office will provide a detailed report of the ledger trial balance for each grant on a quarterly basis. Principal Investigators also have access to the detailed report in Budget View within the My Witt portal.

IDENTIFYING AND REMOVING UNALLOWABLE COSTS

Unallowable costs shall be identified and excluded from any billing, claim, application, or proposal applicable to a sponsored agreement. The Principal Investigator is primarily responsible for properly charging costs to sponsored projects in accordance with all applicable sponsor policies and requirements. Department chairs, department administrators, or other department personnel with fiscal responsibility for reviewing costs on sponsored projects for the department must identify and properly charge unallowable sponsored project costs to the correct expense account code and organization.

In order to provide visibility for incurred costs, practices include (1) the development and maintenance of separate accounting records, (2) the use of any less formal cost accounting techniques which establishes and maintains adequate cost identification to permit audit verification, or (3) identification and removal of unallowable costs as documented on the *Cost Transfer Form*.

On a quarterly basis, the Office of Student Accounts Director will perform a check on expenditures charged to sponsored project accounts to verify that no unallowable costs have been charged. If a charge is found, the Director will notify the Principal Investigator of the unallowable expenditure. The Principal Investigator will respond by submitting a *Cost Transfer Form* with explanation and supporting documents for the cost transfer to the Office of Student Accounts Director. (See the *Cost Transfer Procedures* regarding cost transfers.)

During the fiscal year-end (June 30th) closeout, the Office of Student Accounts Director will perform a comprehensive review of all grant activity occurring during the prior year. As part of that process, the Director will examine all revenue and expenditure transactions for each grant line to verify that no unallowable costs have been charged and all grant funds have been accounted for and allocated accordingly.

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