Unallowable Costs
Administrative Policy

Approved By: B. Hofler Milam, Senior Vice President for Finance and Administration & CFO
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Responsible Official: Associate Vice President for Finance and Controller
Financial and Accounting Services
Office of Research and Sponsored Programs

Policy Statement
The University conducts research that is sponsored by the federal government as well as private sponsors. Sponsored research grants and contracts are an essential element in creating a collegiate university and providing outside funding to support the academic mission and research function of the University. As a recipient of federally and privately sponsored grants and contracts, the University is required to comply with all policies and regulations set forth by the federal government and private sponsors, including compliance with the Office of Management and Budget Circular A-21, Cost Principles for Educational Institutions (OMB Circular A-21). OMB Circular A-21 identifies costs that shall not be charged to federally-sponsored projects (including federal flow-through projects) otherwise referred to as “unallowable.” The University personnel responsible for administering federally sponsored grants should be familiar with these principles as well as other requirements of a granting agency or authority to mitigate risk associated with noncompliance.

Reason for the Policy
The purpose of this policy is to implement and inform the campus community of the requirements set forth in OMB Circular A-21. This policy does not provide guidance on other requirements that might apply to federally or privately sponsored grants or contracts though the campus community should be aware of these as well.
Responsibilities

Primary Guidance

OMB Circular A-21 “Cost Principles for Educational Institutions”
(http://www.whitehouse.gov/omb/circulars_a021_2004)

OMB Circular A-110 “Uniform Administration Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations”
(http://www.whitehouse.gov/omb/circulars_a110)

Responsible University Offices or Officers and Personnel

Associate Provost for Research
AVP for Finance & Controller
Financial & Accounting Services
Office of Research & Sponsored Programs
Deans and Department Chairs
Principal Investigators
Business Administrators

Who Is Governed By This Policy

All Wake Forest University faculty, staff, and students who administer federally and privately sponsored research agreements/contracts.

Who Should Know This Policy

All Wake Forest University faculty, staff, and students who administer federally and privately sponsored research agreements/contracts.

Exclusions & Special Situations

None

Highlights of Revisions, by Date

Related Policies

Related Documents

Business Expense Policy (http://finance.wfu.edu/policies-and-procedures)
Cost Transfer Explanation Form (http://finance.wfu.edu/forms)
Expenditure Voucher Form (http://finance.wfu.edu/forms)
Travel, Meals and Entertainment Policy (http://finance.wfu.edu/policies-and-procedures)

Policy

All university faculty, staff, and students involved in conducting and administering federally sponsored research must be familiar with unallowable costs as defined in OMB Circular A-21 (http://www.whitehouse.gov/omb/circulars_a021_2004/) as well as specific guidelines set forth in grant agreements and contracts. It is the University’s responsibility to maintain compliance with the established principles in charging
costs to federally funded grants and contracts. Section J of OMB Circular A-21 ([http://www.whitehouse.gov/omb/circulars_a021_2004/#j](http://www.whitehouse.gov/omb/circulars_a021_2004/#j)) provides standards to be applied in establishing both allowable and unallowable costs. These standards apply regardless of whether a particular cost is treated as a direct or indirect cost.

**Allowable Costs**

In addition to meeting specific standards for allowability, costs must meet certain general criteria under Section C.2 of OMB Circular A-21 ([http://www.whitehouse.gov/omb/circulars_a021_2004/#c](http://www.whitehouse.gov/omb/circulars_a021_2004/#c)) to be allowable. An allowable cost must be:

1. **Reasonable**—the costs must be reasonable
2. **Allocable**—the costs must be allocable to sponsored agreements under the principles established within OMB Circular A-21
3. **Consistent**—the costs must be given consistent treatment by the University
4. **Allowable**—the costs must conform to any limitations or exclusions set forth in the federal cost principles or in the sponsored agreement as to types or amounts of cost items.

Reasonable cost is defined as the actions that a prudent person would have taken under the circumstances prevailing at the time of the decision to incur the cost. Major considerations involved in the determination of cost reasonableness are the following:

- Whether or not the cost is generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement;
- The transaction is considered to be made as arm’s length bargaining, within Federal and State regulations, as well as within the terms and conditions of the sponsored agreement;
- The cost or transaction must be consistent with established institutional policies and practices

A cost is allocable to a sponsored agreement if the goods or services involved are chargeable or assignable to such cost objective in accordance with the relative benefits received or other equitable relationship. Factors to consider if a cost is allocable are as follows:

- The cost is incurred solely to advance the work under the sponsored agreement;
- The cost benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through reasonable methods; or
- The cost is necessary to the overall operation of the institution and is deemed to be assignable in part to sponsored projects.

Consistent treatment of costs is a basic accounting principle that is specifically required by federal regulations. Costs incurred for the same purpose, in like circumstances, are treated uniformly as a direct cost or an indirect cost. Certain types of costs are normally charged as indirect costs (e.g. salaries of
administrative and clerical staff, office supplies, and postage), these same types of costs cannot be charged directly to sponsored agreements unless the agreement specifically allows for these costs to be directly charged to the project.

**Unallowable Costs**

It is the University’s responsibility to maintain business processes that clearly identify unallowable costs and segregate them from federally sponsored projects. This includes identifying unallowable costs and appropriately excluding them for any application, proposal, billing, or claim related to a federally-sponsored agreement. In the event that a University department, with primary responsibility for sponsored projects, has not properly identified and removed all unallowable costs, Financial & Accounting and Services (FAS) or the Office of Research and Sponsored Programs (ORSP) will seek resolution from those individuals with oversight responsibilities.

**Definitions**

*Principal Investigator* – individual in charge of a sponsored project and who is responsible for all aspects of the sponsored project including financial management and effort review and certification.

**Contact(s)**

Grants Accounting & Compliance: [grantsaccounting@lists.wfu.edu](mailto:grantsaccounting@lists.wfu.edu)

**Web Address for Policy**


**Appendix and Forms**

None