



## I. Policy Statement

Oregon State University (OSU) is responsible for ensuring that all expenses charged to sponsored project awards are allowable, allocable, necessary and reasonable for carrying out the technical objectives of the project.

## II. Reason for Policy

As a recipient of sponsored award funding, OSU must establish guidelines and internal controls for ensuring that inappropriate costs are not allocated to a sponsored project and that a sponsoring agency does not pay for unallowable costs. OSU must reconcile allowability of project costs to University policy, as well as sponsor, state and federal regulation.

## III. Scope & Audience

Principal Investigators (PIs) and all OSU personnel associated with sponsored award activities are affected by this policy.

## IV. Definitions

- **Allocable Cost** –A cost assigned to a sponsored award or other cost objective where the goods or services involved are chargeable or assignable to that sponsored award or cost objective in accordance with relative benefits received.
- **Allowable Cost** – A reasonable cost that is allocable to the sponsored award. The cost must conform to any limitations or exclusions set forth in federal regulations or the sponsored award agreement.
- **Cost Accounting Standards** – A set of standards established by the Cost Accounting Standards Board (CASB) designed to achieve uniformity and consistency in the cost accounting principles followed by organizations working with the Federal government. The cost accounting standards applicable to educational institutions are set forth in the Code of Federal Regulations (CFR) Chapter 99, Title 48 and the OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 2 CFR Part 200 (“Uniform Guidance”).
- **Cost Sharing** – Any project costs that are not reimbursed by the sponsor. Cost sharing of effort is the personnel time and related fringe benefits that were committed and provided in support of the project but are paid for by other funding sources. Cost share may be contributed by OSU or a third-party but all

must meet the same documentation standards and allowability as the award in order to be reported as cost share.

- **Direct Costs** – Those costs that can be identified specifically with a particular project, or other internally or externally funded activity, or can be directly assigned to such activities relatively easily with a high degree of accuracy.
- **Facilities & Administrative (F&A or Indirect/Overhead) Costs** – Those costs incurred for a common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.
- **Transaction Justification** - Explanations that specify a transaction’s legitimate business purpose and benefit to the sponsored award. This may be supplied by supporting documentation and/or written explanation when documentation does not provide adequate clarity or transparency.
- **Unallowable Cost** – Expenditures which are not reimbursable under the terms and conditions of the sponsored award and/or those specifically identified as unallowable under University policy, state or federal regulation. Unallowable costs may not be charged as a direct cost to a sponsored award or included as part of the University’s indirect cost rate.

**V. Website (specific to this policy)**

<http://research.oregonstate.edu/osraa>

**VI. Contacts**

Department	Phone Number	Website
Office for Sponsored Research and Award Administration (OSRAA)	541.737.4933	<a href="http://research.oregonstate.edu/osraa">http://research.oregonstate.edu/osraa</a>

**VII. Responsibilities & Procedures**

Unallowable costs are categorized as those expenditures which are not reimbursable under the terms and conditions of the sponsored award and/or those specifically identified as unallowable under University policy, state or federal regulation. It is OSU’s responsibility to maintain an accounting system that clearly identifies and segregates unallowable cost categories.

In order to determine whether a cost is allowable or unallowable as a charge to a sponsored project, one must confirm how the expense is viewed under both the

University's policies and sponsor terms and conditions. Once it is determined that a cost is allowable according to OSU policy, a determination must be made as to whether it is allowable for reimbursement according to the sponsored award and/or federal regulations.

Certain expenditures, though not reimbursable by a sponsored award, are necessary for conducting university business and may be paid from other OSU accounts. The proper identification of these expenses within OSU's financial system ensures that unallowable costs are not charged as a direct cost to any sponsored project award and are also excluded from the cost categories used in OSU's Facilities and Administration (F&A or indirect cost) rate proposal.

In order to maintain the integrity of cost categories within OSU's financial system, Business Centers and departments must use the appropriate chart of accounts coding - Fund, Organization, Account, Program, Activity and Location (known as "FOAPAL" Elements) - when charging any expense to a sponsored project index or other university, non-sponsored project index, regardless of funding source.

Whether a cost is considered allowable or unallowable for a particular sponsored award may only be determined through close review of the award terms and conditions, sponsor, state and federal regulations, and OSU policies and procedures. Regulations vary by sponsor and the same sponsor may have different restrictions for different awards depending on the source of the funding, the type of award (e.g. grant, cooperative agreement or contract), or the purpose of the award (e.g. research, equipment, conference, training).

OSU policy may be more restrictive than a sponsoring agency's terms or federal regulation, such as OMB Uniform Guidance, or vice versa.

### Cost Accounting Standards

In addition to specific sponsor or university cost restrictions, OSU determines whether an expense is appropriately charged to a sponsored project by following the Cost Accounting Standards put forth by the Federal Cost Accounting Standards Board (CASB). There are 19 standards pertaining to general accounting and specific cost types. The four primary Cost Accounting Standards (CAS) applied by OSU to all sponsored project costs are:

- CAS 401: Consistency in estimating, accumulating and reporting costs – cost accounting practices used by OSU to estimate costs for proposal purposes must be consistent with practices used in accumulating actual costs during performance of the sponsored project. Consistent accounting practices will facilitate the preparation of reliable cost estimates used in a proposal.

- CAS 402: Consistency in allocating costs incurred for the same purpose – costs must be given consistent treatment appropriate to the circumstances. Similar costs should normally be treated as either a Direct or Indirect expense across the University. In other words, like costs in like circumstances will be treated consistently by OSU.
- CAS 405: Accounting for unallowable costs – OSU must have a process to identify unallowable costs and then segregate those costs in the financial accounting system. This ensures that unallowable costs are not billed to a sponsor, either as a direct project cost or as part of OSU's negotiated F&A rate.
- CAS 406: Cost accounting period – a set time period to be used for cost estimating, accumulating and reporting in order to reduce the effects of variation on the flow of costs within each accounting period. A consistent cost accounting period also enhances verifiability, uniformity and comparability in cost measurements. (Note: OSU uses its fiscal year for its cost accounting period)

A method of confirming appropriateness of a direct project cost under the cost accounting standards is to test an expense against the following criteria:

- Costs must be reasonable, defined by a cost's nature and amount not exceeding that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.
- Costs must be allocable to the sponsored award. Costs are incurred to benefit the specific sponsored project and able to be assigned to the project with a high degree of accuracy.
- Costs must be allowable under the terms of the specific sponsored award, sponsoring agency guidelines, state and federal regulation, and University policies. This includes sponsor requirements for incurring the expense prior to the award end date or within a particular budget period.
- Costs must be necessary for sponsored project performance, completion of the project aims, scope of work or other required deliverables.
- Costs must be consistently treated in like circumstances across University departments and functions. Unlike circumstances must be well documented in the transaction justification or back-up documentation.

**Costs not meeting these standards must be identified as unallowable and may not be charged to a sponsored project index.**

### Specific Unallowable Costs under Federal Awards

Federal regulations identify activities or specific categories of costs that cannot be charged, directly or indirectly, to federally sponsored agreements. Costs that are specifically designated as unallowable by OMB Uniform Guidance include:

- advertising expenses except for employee and subject recruitment
- alcoholic beverages
- alumni activities
- bad debts
- commencement and convocation costs
- contingency provision costs
- certain defense and prosecution of criminal and civil proceedings
- entertainment costs
- certain fines and penalties
- fundraising costs
- goods and services for personal use
- housing and personal living expenses for officers of the institution
- insurance against defective work
- interest, fund raising, and investment costs
- lobbying costs
- membership in most civic or community organizations and any country club, social or dining club
- public relations costs
- selling and marketing costs
- certain student activity costs
- travel/subsistence costs of trustees

Contact OSRAA with questions regarding this list or if a sponsored project includes activities which may involve one or more of these categories of cost.

### **Roles & Responsibilities**

A comprehensive list of OSU Roles and Responsibilities may be viewed at:

<http://research.oregonstate.edu/osraa/osraa-organization/roles-and-responsibilities>

### Principal Investigator

- Charge only allowable project costs to the appropriate sponsored project index throughout the life of the award
- Review project transactions regularly throughout the period of performance and alert the Business Center at once if any incorrect or unallowable costs are discovered on a sponsored award

- If applicable, ensure that cost share and program income transactions are allowable, correctly identified and documented according to sponsor requirements and [OSU policy](#)
- Review closeout memo emails from OSRAA and work with Business Center to closely monitor expenses for awards ending within 90 days
- Respond to inquiries from Business Center and/or OSRAA regarding unallowable or questioned project costs
- Review and approve subrecipient invoices, including confirmation that appropriate cost categories are billed by subrecipient

#### Business Center

- Record allowable sponsored award costs and cost share in a timely manner and to the correct account codes throughout the life of the award
- If applicable, ensure only allowable expenses are posted to the companion cost share index or program income index, per [OSU Policy](#)
- Review closeout memo emails from OSRAA and closely monitor awards ending within 90 days
- Review final project transactions and cost share documentation with PI as soon as possible within closeout period
- Notify OSRAA of adjustments or corrections that have not posted to Banner FIS before the Business Center's closeout deadline - this includes expense corrections and removal of unallowable costs

#### Office for Sponsored Research and Award Administration (OSRAA)

- Review sponsored award and provide interpretation and guidance to PI and Business Center regarding unallowable costs as determined by sponsor terms, state and federal regulation, and OSU policies
- Perform review of sponsored project expense accounts during preparation of financial reports and prior to project end and notify PI and Business Center of questioned or unallowable costs

## VIII. Forms & Tools

### Frequently Asked Questions

[See OSRAA Website](#)

## IX. Related Information

[OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, § 200 Subpart E Cost Principles](#)

[Cost Accounting Standards for Educational Institutions, 48 CFR § 9905](#)

[OSU Fiscal Operations \(FIS\) Manual – Part 400 Expenditures](#)

**X. History**

Last review date: 9/1/2018

Next scheduled review date: 9/1/2020

Original issue date: Effective 9/1/2018

*Note: The Office of University Compliance will attempt to track the original issue date of policy and revision dates to existing policies but will not publish this information on the website.*