

Purpose

This policy addresses the allowability, reasonableness, and allocability of costs on sponsored projects and the roles and responsibilities associated with those costs. This policy shall also be used in determining the costs of work performed by the University and Cooperative Extension under general awards, sub-awards, subcontracts, and other awards and agreements made under sponsored projects. VSU maintains this policy to ensure direct costs are necessary, reasonable, allowable, and allocable to a particular sponsored project and administered consistently across all sponsored projects.

Authority, Responsibility, and Duties

This policy applies to all funding, federal and non-federal, accepted by the Office of Sponsored Research and Programs (OSRP) on behalf of the University. All faculty, students and staff, including Administrators, Primary Investigators (PIs) and OSRP staff, participating in federal and non-federal funded projects are subject to this policy and are expected to fully comply with this policy and the terms and conditions outlined in applicable sponsored funding agreements.

Definitions

Administration – General administration and general expenses, departmental administration, sponsored projects administration, student administration and services, and all other types of expenditures not listed specifically under one of the subcategories of facilities.

Allocable Cost – Goods or services incurred solely to advance the work under the sponsored project that benefit both the sponsored project and other work at the University, in proportions that can be approximated through the use of reasonable methods, or necessary to the overall operation of the University and deemed to be assignable in part to sponsored projects.

Allowable Cost – Goods or services that are reasonable and allocable to sponsored projects that are given consistent treatment through application of generally accepted accounting principles appropriate to the circumstances and that conform to any limitations or exclusions set forth in agency guidelines or sponsored project.

Applicable Credits – Refers to receipts or negative expenditures that operate to offset or reduce direct or F&A cost items such as purchase discounts, rebates, or allowances; recoveries or indemnities on losses; and adjustments of overpayments or erroneous charges.

Conformance – Costs must conform to any limitations or exclusions set forth in the terms and conditions of the award, including those in the cost principles.

Consistent Costs – Costs given consistent treatment when assigning to cost objectives for all work under similar circumstances, regardless of the source of funding, so as to avoid duplicate charges.

Direct Costs – Costs that can be clearly associated with a specific project and can be assigned easily with a high degree of accuracy.

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Disallowed Cost – Those charges to an award that the awarding agency, pass-through entity, or recipient entity determines to be unallowable, in accordance with the applicable statutes, guidance documents, regulations, or the terms and conditions of the award.

Facilities – Depreciation and use allowances, interest on debt associated with certain buildings, equipment and capital improvements, operation and maintenance expenses, and library expenses.

Facilities and administrative costs (also termed F&A, indirect costs, or overhead) – Costs that are incurred for common or joint purposes benefiting more than one cost objective, and cannot be easily and specifically identified with a particular sponsored project, an instructional activity, or any institutional activity. These costs generally include departmental clerical salaries, utility costs, and custodial expenses.

Principal Investigator (PI) – The primary individual responsible for the preparation, conduct, and administration of a research grant, cooperative agreement, training or public service project, contract, or other sponsored project.

Reasonable Cost – Goods or services acquired or applied in an amount that reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.

Sponsored Project – Any grant, contract, or other agreement between the University (academic or Cooperative Extension Program) and a sponsoring agency.

Policy Statements

When Virginia State University accepts an award from a sponsor in support of a specific program or projects, it is required to ensure that any costs incurred directly benefit the project whose account is being charged. Principal Investigators (PIs) and OSRP are responsible for complying with the applicable sponsor requirements for sponsored projects and for the prudent management of all expenditures and actions affecting the award.

Federal Grants

Allowability, allocability, and reasonableness are defined and determined by the Office of Management and Budget (OMB), the sponsoring entities requirements and/or institutional policy. Each financial transaction charged against a sponsored research award is evaluated against the three concepts of allowability, allocability, and reasonableness.

Specifically for federal grants, **2 CFR § 200 (Code of Federal Regulations) — Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards** (“[Uniform Guidance](#)”) dictates that the recipient institution is responsible for ensuring that costs charged to a sponsored project are allowable, allocable, and reasonable. These cost principles require that any expense charged to a federally sponsored project be reasonable and necessary, allocable, consistently treated, and conform to any limits or exclusions set forth in the Uniform Guidance or the terms and conditions of the award.

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While direct costs on sponsored projects are those costs that can be clearly associated with a specific project and can be assigned easily with a high degree of accuracy, costs incurred for the same purpose in similar circumstances must be treated consistently as either direct cost or F&A cost. As prescribed in the Uniform Guidance, for a given cost to be charged to a sponsored award, the cost must be allowable, reasonable, and allocable as well as treated similarly to comparable transactions and conform to any applicable limitations or exclusions. The criteria outlined below should serve as direction when evaluating costs. When an item is questionable, OSRP should be consulted before the cost is incurred.

Allowable

The Uniform Guidance, pursuant to subpart E (2 CFR § 200.403), details the factors affecting the allowability of costs for federal awards. The Guidance precludes some same purpose costs and some cost sharing or matching requirement costs from current or prior periods. Typical costs that could be charged directly to a sponsored project, include but are not limited to, the following:

- Employee compensation for work directly for the sponsored program, including related fringe benefit costs;
- Costs of materials directly consumed or expended in the performance of the sponsored project or program; and
- Travel directly related to the sponsored project or program, taken in accordance with the University policy, and not prohibited by the funding agency.

In general, for a cost to be allowable, it must:

- Not be designated as “unallowable” under sponsor regulations for selected items of cost;
- Must be necessary and reasonable for the performance of the award and be allocable;
- Adhere to sponsor-specific policies, and award-specific terms and conditions;
- Conform to the limitations and/or exclusions set forth in the Uniform Guidance;
- Adhere to Commonwealth and University policies, procedures, laws, and regulations regarding specific items of cost;
- Be given consistent treatment, i.e., a cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an F&A cost;
- Not be included as a cost or used to meet cost sharing or matching requirements on any other federally financed project in either the current or a prior period; and
- Be adequately documented.

Sponsors may restrict allowability of costs in several ways:

- In the terms and conditions of an individual award;
- In the terms and conditions of an individual funding program;

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- In agency grant guidelines, including federal research terms and conditions and agency-specific terms and conditions; and
- Uniform Guidance provisions.

For guidance on allowability of costs, the Uniform Guidance's Cost Principles, [2 CFR Subpart E](#), provides a category of costs and applicable principles. In addition, costs must abide by the [Virginia Public Procurement Act](#), procurement guidelines established by the Commonwealth of Virginia and [University Procurement Policy 5508](#).

Reasonable and necessary

The Uniform Guidance, pursuant to subpart F (2 CFR § 200.404), details the factors affecting the reasonableness of costs. In determining reasonableness of a given cost, consideration must be given to:

1. Whether the cost is of a type generally recognized as ordinary and necessary for the operation or proper and efficient performance of the sponsored project;
2. Whether restraints or requirements imposed by such factors as federal and state laws and regulations, sponsored agreement terms and conditions, sound business practices, and arm's-length bargaining have been satisfied;
3. Are the goods and services acquired at market prices for comparable goods or services for the geographic area;
4. Have the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the institution, the Commonwealth, its employees, its students, the federal government, and the public at large; and
5. Whether the University or Cooperative Extension deviated from established institutional practices and policies relative to the incurrence of the costs (e.g., hiring decision, choice of goods or services, determination of salary or price, vendor selection, etc.), which may unjustifiably increase the award's cost.

The prevailing principal is that a cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances at the time the decision was made to incur the cost.

Allocable

The Uniform Guidance, pursuant to subpart F (2 CFR § 200.405), details the factors affecting the allocability of costs. Every incurred cost must have a direct benefit to the sponsored project being charged. Supplies and equipment may not be purchased simply to use an unobligated balance remaining at the end of a project or used to restock inventory to replenish supplies used during the life of the project. In determining allocability. The given cost must:

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- Be incurred solely and specifically for the federal award;
- Benefit the sponsored project and other work of the recipient entity, University or Cooperative Extension and Research, and can be distributed in proportions that can be clearly documented through reasonable methods; and
- Be necessary to the overall operation of the University and is assignable in part to the sponsored award in accordance with the Uniform Guidance.

Generally, if a cost benefits two or more projects or activities in proportions that can be determined and documented without undue effort or expense, the cost must be allocated to the projects based on the proportional benefit. Additionally, if a cost benefits two or more projects or activities in proportions that cannot be determined with normal precision because of the interrelationship of the work involved, the costs may be allocated or transferred to benefited projects on any reasonably documented basis, such as the Principal Investigator's documented estimate.

Non-federal grants

While the aforementioned guidance primarily applies to federal awards, consistent application of these principals may be applied to non-federal grant awards. Any questions regarding the allowability, reasonableness or allocability of federal and non-federal costs should be directed to OSRP.

General Considerations

Once a determination of allowability, allocability, and reasonableness has been made, it is important that all expenses be charged to appropriate OSRP or departmental budget in the appropriate expenditure type/class. Budget and expenditure information recorded in the University's accounting system serves as the basis for:

- the preparation of yearly financial statements for the University;
- departmental-level planning and reporting;
- project/account specific planning and reporting;
- Facilities and Administration Cost proposal preparation and rate calculation;
- compliance filings to award sponsors;
- Board of Visitor reports;
- audit reviews; and
- many other uses.

University employees having official responsibility for federal and non-federal award transactions shall be knowledgeable about this policy and related regulations, principles, and laws. No public employee having

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official responsibility for a federal and non-federal award transaction shall knowingly make a false, fictitious or fraudulent statement or representation or make or use a false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry.

Any person who violates this policy may be subject to personal liability and disciplinary action, including but not limited to termination. In some instances, willful violations of regulations and law may subject an individual to criminal prosecution.

References

[2 C.F.R. Part 200—Uniform Administrative Requirements, Cost Principles, And Audit Requirements For Federal Awards](#)

[§ 2.2-4300 of the Code of Virginia, Virginia Public Procurement Act](#)

[VSU Policy No. 5508 - Procurement of Goods and Services Policy](#)



Approved By: _____
President

June 30, 2020

Date: _____