

## Federally-Defined Allowable and Unallowable Costs

Office of Management and Budget (OMB) Circular A-21 establishes principles for determining costs applicable to grants, contracts and other agreements with educational institutions. The circular also provides guidelines used in preparing an overhead rate submission plus defines **what are allowable and unallowable direct costs for federal funding purposes**.

Tests of expenditure allowability per OMB Circular A-21, Section C.2 costs must be

- **Reasonable** -- A prudent person would have purchased this item and paid this price.
- **Allocable** -- Expenses can be allocated to the government activity based on benefit derived, cause and effect, or other equitable relationship.
- **Consistently Treated** -- Like expenses must be treated the same in like circumstances at the University.
- **Allowable** -- The expense must be allowable or not specifically excluded as specified by government regulations.

**NOTE: If an expense cannot meet all of the above criteria, it is not eligible for inclusion in the indirect cost rate study regardless of its purpose.**

One of the major categories that tend to be questioned is Administrative Costs. Here are some examples:

Generally Unallowable Administrative Costs	Examples
Administrative & Clerical Salary	Secretary, Administrative Assistant, Department or Office Manager, P&S personnel with general/recurring administrative duties.
Office Supplies	Pens, paper, ribbons, disks, folders, organizers, scissors, calculators, print cartridges, toner, etc.
Telephone & Internet Connection	Fee for basic telephone and internet services. Toll calls are allowable if they are specifically related to the grant.
Postage & Mail	General stamps, US Mail, FedEx, Airborne, etc. Postage for shipping research material to a funding agency or another institution/company directly involved in the research is acceptable.
Periodicals & Newspapers	Subscriptions to magazines, journals or newspapers unless it is clearly demonstrated by the PI that the subscription is specific to a particular project.
Copying	General photocopying. Project specific photocopying that can be traced through a chargeback system or through photocopy services are allowable.

However, in accordance with supplementary guidance on this subject issued by OMB, these costs may be treated as direct costs when the nature of the work performed under a particular project requires an extensive amount of administrative or clerical support or the nature of the work performed under a particular project creates a special or unique need for the item which is clearly different than normal circumstances and the costs otherwise meet the general criteria for direct charging in Circular A-21 (i.e., can be identified specifically with the project). These situations are considered "unlike circumstances".

Provided below are examples illustrative of circumstances where direct charging the salaries of administrative or clerical staff may be appropriate.

1. Large, complex programs, such as Program Projects, International Projects, General Clinical Research Centers, environmental research centers, engineering research centers, and other grants and contracts that entail **assembling and managing teams of investigators from a number of institutions**.
2. Projects which involve data accumulation, analysis and entry, surveying, tabulation, cataloging, searching literature, **and** reporting, such as epidemiological studies, clinical trials, and retrospective clinical records studies.
3. Projects that require making travel and meeting arrangements for **large numbers of participants**, such as conferences and seminars; extensive desktop publishing of workshop materials.
4. Projects whose principal focus is the preparation and production of manuals and large reports, books, and monographs (excluding routine progress and technical reports).
5. Projects that are geographically inaccessible to normal departmental administrative services, such as seagoing research vessels, radio astronomy projects, and other research field sites that are remote from the campus.
6. Individual projects requiring project-specific database management; individualized graphics or manuscript preparation; human or animal protocol, IRB preparations and/or other project-specific regulatory protocols; **and** multiple project-related investigator coordination and communications.

These examples are not exhaustive nor are they intended to imply that direct charging of administrative or clerical salaries would always be appropriate for the situations illustrated in the examples. Where direct charges for administrative and clerical salaries are made, care must be exercised to assure that costs incurred for the same purpose, in like circumstances, are consistently treated as direct costs for all activities. Unlike circumstances must be clearly identified, justified and detailed in the application.

### **The following scenarios are examples of unallowable administrative costs:**

#### **Example #1**

*A Principal Investigator completes a business expense reimbursement form to be reimbursed for the cost of his cell phone. The cell phone is not used for personal purposes, but it is used for telephoning staff in the lab, calls to various potential donors and scientists associated with all of the grants for which he currently oversees. This is an inappropriate direct cost charge because the cell phone is not specific to one unique research project.*

#### **Example #2**

*While ordering supplies from STAPLES, the department includes a set of six 3-ring binders to be used in the laboratory. Because the PI conducts research in the lab, she asks the department manager to transfer the cost of the binders to the grant. This type of charge is unallowable as a direct cost because the volume of binders is not substantial nor was it demonstrated that the binders are essential to the success of one specific research grant.*

### **The following scenarios are examples where exceptions were made:**

#### **Example #1**

*USAID funds a research project whose focus is on providing veterinary services for migrant farmers' cattle in Africa. The majority of the research is being conducted overseas in the field where means of communications are limited. In order to conduct the research the investigator must have the dedicated services of a telephone and fax machine from a site. This expense would be considered an exception.*

**Example #2**

*A center has a mission of providing workshops for teachers in the public schools of Massachusetts and providing them desktop materials during the week long seminars and for the teachers to take back with them. Because of the logistics involved and the high volume of desktop publishing, an administrative salary would be an acceptable direct cost expense. The copying for the project would be allowable along with the binders that are needed to assemble the materials for the workshop participants.*

When working on a proposal, if you have any questions about allowable costs, please first contact your Grant Coordinator. If there are still questions, then contact OSPA at 294-5225.

If you have questions about charging items to an award that has already been made, then please your SPA accountant.