

FLORIDA INSTITUTE OF TECHNOLOGY

**ITEM 14**

**TREATMENT OF UNALLOWABLE  
COSTS / DIRECT VS. INDIRECT**

FLORIDA INSTITUTE OF TECHNOLOGY  
POLICY ON  
ALLOWABILITY, REASONABLENESS AND ALLOCABILITY OF COSTS FOR  
SPONSORED PROGRAMS

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**Background:**

When the Florida Institute of Technology accepts an award from a sponsor in support of a specific program or project, it is required to manage those funds prudently to ensure that any costs incurred directly benefit the project accounts being charged. The Federal Government is the largest sponsor of externally funded activity at the university. The cost principles relating to expenditures on federal awards are contained in the Office of Management and Budget's (OMB) Circular A-21, *The Cost Principles for Institutions of Higher Education*. 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 A-21 or the terms and conditions of the award. In addition, individual awards may include special terms and conditions that must be considered when incurring costs. Consult with the Sponsored Research Office for more details.

**This policy addresses the allowability, reasonableness and allocability of costs on sponsored projects and the roles and responsibilities associated with those costs.**

***Allowable Costs:***

All costs must be allowable under federal regulations and sponsor terms and conditions, including program-specific requirements and university policy. To be allowable, costs must:

- be reasonable and necessary
- be allocable to federally sponsored projects under the principles and methods provided in OMB Circular A-21
- be given consistent treatment; and
- conform to any limits or exclusions set forth in A-21 or the terms and conditions of the award.

Typical costs charged directly to a sponsored project include:

- compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs
- costs of materials consumed or expended in the performance of the sponsored project; travel in accordance with the university policy
- other allowable items of expense incurred for the direct benefit of the sponsored project

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***Reasonable and Necessary Costs:***

OMB Circular A-21 defines a cost as reasonable if the nature of the goods or services acquired or applied, and the amount involved, reflect the action that a prudent person would have taken under the prevailing circumstances when the decision to incur the cost was made.

Important considerations in determining the reasonableness of costs are:

- Is the cost of a type generally recognized as necessary for the performance of the sponsored project?
- Have the restraints or requirements imposed by such factors as federal and state laws and regulations, sponsored agreement terms and conditions, and arm's length bargaining been satisfied?
- Have the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the government, and the public at large?
- Is the extent of the actions taken with respect to the incurrence of the costs (e.g., hiring decision, choice of goods or services, determination of salary or price, vendor selection, etc.) consistent with established institutional policies and practices applicable to the work of the sponsored project?

***Allocable Costs:***

A cost is allocable to a particular sponsored project if the goods or services involved are:

- chargeable or assignable to such project in accordance with relative benefit received or
- other equitable relationship. Every incurred cost must have a direct benefit to the sponsored project being charged.
- In general, a cost is allocable to a particular sponsored project if it fulfills one of the following conditions:
  - it is incurred solely to advance the work under the sponsored agreement; or
  - it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods; or
  - it is necessary to the overall operation of the institution and, in light of the principles provided in OMB Circular A-21, is deemed to be assignable in part to sponsored projects (i.e. facilities and administrative costs).

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If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost should be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then the costs may be allocated or transferred to benefited projects on any reasonable basis.

Where the purchase of equipment or other capital items is specifically authorized under a sponsored agreement (specifically approved by the sponsor), the amounts thus authorized for such purchases are assignable to the sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved. Any costs allocable to a particular sponsored agreement under the standards provided in OMB Circular A-21 shall not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations (i.e., unexpended balance at the end of a budget or project period), to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

Any costs allocable to activities sponsored by industry, foreign governments, or other sponsors shall not be shifted to federally sponsored agreements.

**Roles and Responsibilities:**

The Principal Investigator (PI) is responsible for ensuring that all expenditures on sponsored projects are reasonable and necessary, allocable, consistently treated, conform to any limits or exclusions set forth in A-21 or the terms and conditions of the award and adhere to university policy. PI's shall review award expenditures on a timely basis and document the review. Review of expenditures should be performed monthly to ensure that any adjustments are made promptly, allowing for accurate reimbursements from the sponsor and reporting to the sponsor within the timeframe specified by the award terms and conditions. Immediate action (i.e. cost transfer request) must be taken to resolve any errors or discrepancies noted during the review. Office of Sponsored Programs (OSP) is responsible for the timely review of expenditures in accordance with sponsor terms and conditions and university policies during the close out of each sponsored project. This review must be completed within the timeframe indicated in the terms and conditions of the sponsored project. During the review an OSP team member may need clarification or justification of expenses charged. The PI shall provide additional documentation to meet sponsor terms and conditions or university policies.

## FLORIDA INSTITUTE OF TECHNOLOGY

### EXAMPLES OF UNALLOWABLE DIRECT COSTS

1. \$320 for Visa Application

PI submitted a request for a grant to pay for the Visa Application. Upon review of the request, it was determined that is an unallowable direct cost to a grant. The expense was denied for the grant and charged to the Office of Sponsored Programs.

The accounting string was:

Fund 01/Index VPRSH/Account 72235/Program Code 660.

2. \$500 for Security Background Check

PI submitted a request for a grant to pay for a security background check. Upon review of the request, it was determined that is an unallowable direct cost to a grant. The expense was denied for the grant and charged to the Office of Sponsored Programs.

The accounting string was:

Fund 01/Index VPRSH/Account 72235/Program Code 660.



COPY

To: Physics Department

From: Judith Brooke

Date: March 25, 2009

Re: H-1B Fee Checks for Mihai Cara's H-1B

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**INVOICE**

Please issue checks for:

**\$320.00 payable to "U.S. Citizenship and Immigration Services"**  
**\$500.00 payable to U.S. Department of Homeland Security**

They should be addressed to (BUT NOT MAILED-- IT WILL BE INCLUDED IN THE FINAL PETITION, HOLD FOR ISSS PICK-UP):

**U.S. Citizenship and Immigration Services**  
**California Service Center**  
**ATTN: CAP EXEMPT H-1B Processing Unit**  
**24000 Avila Road, Room 2312**  
**Laguna Niguel, CA 92677**

**PLEASE NOTE THE NEW ADDRESS.**



# CHECK REQUEST

Payable To: U.S. Department of Homeland Security

Street Address: Attn: CAP Exempt H-1B Processing Unit

24000 Avila Road, Room 2312

City, State, Zip: Languna Niguel, CA 92677

Federal ID: On File

Invoice#: \_\_\_\_\_

Fund	Org or Index	Account	Program	Description	Amount
01	VPRSH	72255	660	Mihai Cara's H-1B	500.00
				<b>TOTAL</b>	<b>\$500.00</b>

Date Requested: 3/3/2009

Due Date: ASAP

*I hereby certify that all expenses on this report were actually incurred on behalf of Florida Tech and to support the department or grant to which the funds are charged.*

*These charges are allowable under the terms of the grant and all related contractual terms.*

Submitted By: Eric Perlman

OSP - Required if charged to a Grant

Approved By: Terry Oswalt  
Department Head

A/P Processed by: \_\_\_\_\_

Comments: Please route check to PHSS Department

Note if using an index; no need to enter fund or program  
Travel Expense Reimbursement please submit on Employee Expense Form



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Payable To: U.S. Citizenship and Immigration Services

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24000 Avila Road, Room 2312

City, State, Zip: Languna Niguel, CA 92677

Federal ID: On File

Invoice#: \_\_\_\_\_

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Date Requested: 3/3/2009

Due Date: ASAP

*I hereby certify that all expenses on this report were actually incurred on behalf of Florida Tech and to support the department or grant to which the funds are charged.*

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OSP - Required if charged to a Grant

Approved By: Terry Oswalt  
Department Head

A/P Processed by: \_\_\_\_\_

Comments: Please route check to PHSS Department

*Note if using an index; no need to enter fund or program  
Travel Expense Reimbursement please submit on Employee Expense Form*

## FLORIDA INSTITUTE OF TECHNOLOGY

### EXAMPLES OF UNALLOWABLE INDIRECT COSTS

1. \$19.99 reimbursement for a cake purchased at Publix was denied. The PI was contacted to explain the denial and the Check Request was returned to the originating department.
2. \$276.00 for advertising of a grant position was posted to a grant by a procurement card. Upon review of grant procurement cards, the charge for advertisement was discovered. The PI was contacted and a journal entry was prepared. The JV transferred the unallowable advertisement to the Office of Sponsored Programs.

The accounting string was:

Fund 01/Index VPRSH/Account 74210/Program Code 660.



**COPY**

CHECK REQUEST

DISALLOWED

Payable To: Brittany Burke

Street Address: 4291 Swana Dr.

City, State, Zip: Melburne, FL 32901

Federal ID: On File

Invoice#: \_\_\_\_\_

<u>Fund</u>	<u>Org or Index</u>	<u>Account</u>	<u>Program</u>	<u>Description</u>	<u>Amount</u>
	201089	74139		Publix	19.99
				<b>TOTAL</b>	<b>\$19.99</b>

Date Requested: 7/5/2009

Due Date: 7/15/2009

I hereby certify that all expenses on this report were actually incurred on behalf of Florida Tech and to support the department or grant to which the funds are charged.

These charges are allowable under the terms of the grant and all related contractual terms.

Submitted By: \_\_\_\_\_

*[Signature]*  
Requester

OSP - Required if charged to a Grant

Approved By: \_\_\_\_\_

*[Signature]*  
Dr. R. Aronson

A/P Processed by: \_\_\_\_\_

Comments: \_\_\_\_\_

Please Deliver to the Department of Biological Sciences

Note if using an index; no need to enter fund or program

Travel Expense Reimbursement please submit on Employee Expense Form

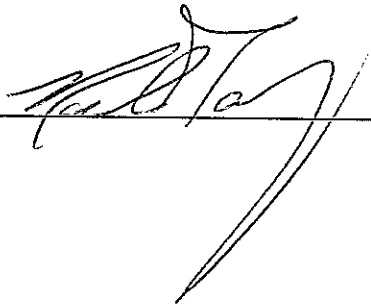
## Supporting Documentation for Receipts

Date	Vendor	Amount
5/13/09	Publix	19.99

Description:

Refreshments for All Hands Meeting on 5/13/09

Signature:

A handwritten signature in black ink is written over a horizontal line. The signature is stylized and appears to be "Paul Taylor".

# PUBLIX

Pala Bay Center 321-724-4724  
Store Manager \*\*Alan Frazin\*\*

RASP ELEGANCE CAKE	19.99	F
Order Total	19.99	
Sales Tax	0.00	
Grand Total	19.99	
Debit	Payment	19.99

PRESTO!

Reference #: 047020-003

Trace #: 0010014581

Acct #: XXXXXXXXXXXX2237

Debit Purchase FROM CHECKING

Amount: \$19.99

Change 0.00

Your cashier was Linda

P.O. Box 407  
Lakeland, Fl. 33802-0407

05

4 5075 0000

RASPBERRY ELEGANCE CAKE

TOTAL PRICE

**\$19.99**

COUNT

1

2-16479-11959

*Brittley*  
*- Cake for All Hands*  
*meeting*  
*201089*

FLORIDA TECH  
JV Entry Form

Reversing  
DOCUMENT TOTAL

Yes No  
552.00

Journal Entry Number  
Date to be Posted

J0086738  
Apr 1 2009

SEC# TYPE INDEX FUND VPRSH ACCT ORG PROG AMOUNT D/C DESCRIPTION BK# Support Ref Pg

SEC#	TYPE	INDEX	FUND	VPRSH	ACCT	ORG	PROG	AMOUNT	D/C	DESCRIPTION	BK#	Support	Ref Pg
1	1JVJ	5091	230570	01	74210	PHY386	660	276.00	D	AAS Ad for Job Posting			
2	1JVJ				72202		620	276.00	C	AAS Ad for Job Posting			
3	1JVJ								D				
4	1JVJ								C				
5	1JVJ								D				
6	1JVJ								C				
7	1JVJ								D				
8	1JVJ								C				
9	1JVJ								D				
10	1JVJ								C				
11	1JVJ								D				
12	1JVJ								C				
13	1JVJ								D				
14	1JVJ								C				
15	1JVJ								D				
16	1JVJ								C				

Debits	276.00
Credits	276.00
In Balance	

I hereby certify that all items on this journal entry were actually incurred on behalf of Florida Tech and all were incurred to support the department, activity and/or grant to which the funds are being charged

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

PREPARED BY: Deb Hartegan DATE: 4/16/09 ENTERED BY: Kelly Goodlick Date: 4/21/09  
 APPROVED BY: [Signature] DATE: 4/17/09 POSTED BY: [Signature] Date: 4/21/09  
 APPROVED BY OSP: [Signature] DATE: 4/21/09 (Required if allocated to a grant)



FLORIDA INSTITUTE OF TECHNOLOGY

**ITEM 15**

**RECORD RETENTION**

FLORIDA INSTITUTE OF TECHNOLOGY

**NO RESPONSE REQUIRED**

FLORIDA INSTITUTE OF TECHNOLOGY

**ITEM 16**

**FFR PREPARATION PROCEDURES**

FLORIDA INSTITUTE OF TECHNOLOGY

**NO RESPONSE REQUIRED**