

## Florida Atlantic University Allowability of Costs on Federal Awards

### III. Background:

Since FAU has agreed to accept Federal funds, the University must follow OMB Circular A-21, "*Cost Principles for Educational Institutions*". OMB Circular A-21 Section C discusses the factors affecting the allowability of both direct and indirect costs on Federal awards

2. *Factors affecting allowability of costs.* The tests of allowability of costs under these principles are: (a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods provided herein; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations, or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

The basic criteria along with the Cost Accounting Standards determine whether an expense can be charged to a Federal award as a direct cost, as an indirect cost, or whether the expense is unallowable.

First of all, the cost must be reasonable. There are several questions to ask if determine if a cost is reasonable. These questions are discussed in Section V A of this document.

Secondly, the cost must be allocable to the project. In other words, the project must have received benefit from the purchase of the goods or services. There are a number of specific rules concerning the allocability of costs, as required by OMB Circular A-21, Section C. In addition, some allocation methods are unacceptable for Federal awards. Section V B discusses the allocability of costs.

The third criterion is the consistent treatment of costs. This factor is based on Cost Accounting Standards 501, 502, and 506. First of all there must be consistency in the estimating, accumulating and reporting of costs on Federal awards (CAS 501). Secondly, there must be consistency in the charging of costs incurred for the same purpose on federal awards. In other words, like expenses must be treated as either direct or indirect costs by the University (CAS 502). And finally, the University must consistently use its fiscal year as the cost accounting period for the calculation of the F&A cost rate (CAS 506). Section V C discusses the consistent treatment of costs.

The last criterion is that costs must conform to any limitations, as required by OMB Circular A-21, the award Terms and Conditions, and FAU guidelines. In other words, unallowable costs must be identified and they cannot be charged as direct costs on Federal awards. In addition, they must be excluded for the indirect cost

pools used to compute the F&A cost rate (CAS 505). Section V D discusses this criterion.

After applying the above four criteria, a cost must be net of any applicable credits when being charged to a Federal award, as discussed in Section V E. The Allowability Overview Grid provides a one page summary of the basic criteria for the allowability of costs on Federal awards. (See Exhibit B.) The basic criteria are discussed in depth in Section V.