

## Cost Policy

- Authority** This Guide Memo was approved by the Vice President for Business Affairs and Chief Financial Officer.
- Summary** This Guide Memo outlines general policies on expense reimbursement by the federal government and discusses the importance of assigning the correct Project, Task and Award (PTA) and Expenditure Type to expenses and credits. For more detailed information, see *Proper Coding of Allowable and Unallowable University Expenditures* on the Gateway to Financial Activities web site at [http://fingate.stanford.edu/staff/fundsmgmt/res\\_jobaid/coding\\_allowable\\_exp.html](http://fingate.stanford.edu/staff/fundsmgmt/res_jobaid/coding_allowable_exp.html).

Section headings for this Guide Memo are:

1. BACKGROUND
2. DEFINITIONS
3. GENERAL RULES
4. UNALLOWABLE COSTS

### 1. BACKGROUND

One-third of all funding for University expenditures comes from the federal government. Most of this funding comes in the form of direct support for sponsored projects, but a substantial portion comes in the form of reimbursement for indirect costs of federally sponsored grants and contracts. Stanford tracks whether University activities are allowable for reimbursement using the Project, Task and Award (PTA) to which transactions are charged, and tracks allowable and unallowable cost objects through the Expenditure Type used to record transactions.

Employees must pass a test covering cost policy and the chart of accounts in order to be granted signature authority in the Oracle Financial system. Both instructor-led and web-based courses are available; for more information, see [http://ora/cardinal/level\\_1/cost\\_policy/default.asp](http://ora/cardinal/level_1/cost_policy/default.asp).

### 2. DEFINITIONS

- **Direct Costs** are expenses that can be identified specifically with a particular sponsored project or other direct cost objective, such as Auxiliary Activities or Instruction, or expenses that can be directly assigned to such activities relatively easily with a high degree of accuracy.

*EXAMPLE: cost of materials used on a project*

- **Indirect Costs** are those that are incurred for common or joint objectives and therefore cannot be identified readily with a particular sponsored project. Indirect costs are sometimes called Facility & Administrative (F&A) or overhead costs.

*EXAMPLE: costs of buildings or utilities*

### 3. GENERAL RULES

Rules for allowability are covered in the government document OMB Circular A-21 (<http://www.whitehouse.gov/omb/circulars/a021/a021.html>) and federal regulations. In many cases the issue of whether a particular cost is allowable is a complex one. When in doubt, consult with your local financial or research administrator, or the Office of Research Administration (<http://www.stanford.edu/dept/ORAI/>). All unallowable activities and objects (line items) must be coded as such. In general, expenses are chargeable to the federal government only if they are:

- **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.
- **Allowable** – Allowable or not unallowable as specified by government regulations.

If an expense cannot meet the above criteria, it is not eligible to be charged to a federal grant or contract no matter what its purpose.

NOTE: Agencies that sponsor grants and contracts use the term allowable to mean permitted as a direct cost under the terms of a specific grant or contract. Expenses which are generally allowable for federal reimbursement may not necessarily be permitted under the terms of a specific grant or contract.

### 4 UNALLOWABLE COSTS

Expenses which are unallowable for federal reimbursement as a direct or indirect cost may still be reasonable and necessary business expenses permitted by the University, as outlined in the Administrative Guide. Departments may incur these expenses, but they must be coded as unallowable so they can be readily identified and excluded from the indirect cost calculation. A detailed list of specifically unallowable activities (Tasks) and objects (Expenditure Types) is provided in the Cost Policy and Chart of Accounts Tutorial at [http://cardinal-curriculum/cost\\_policy/1regulations.html](http://cardinal-curriculum/cost_policy/1regulations.html).