1. **PURPOSE**

This policy establishes procedures used by the Office of Grants and Contracts (OGC) when identifying and clearing unallowable/disallowed costs on sponsored projects (grants, contracts, cooperative agreements and other financial commitment instruments, collectively referred to as awards or agreements, and managed by the Office of Sponsored Programs (OSP) and OGC).

The policy applies only to true unallowable/disallowed costs and not to accounting adjustments or corrections which may occur from time-to-time due to normal review of award and account expenditures.

This procedure is based on federal and state policies and regulations and generally accepted audit and management practices. Individual sponsors or awards may have more specific or restrictive requirements. If an agreement has different requirements than those in this policy, the most restrictive requirement will be followed. These procedures apply to all sponsored agreements (federal and non-federal).
Unallowable/disallowed costs may be determined either from direct costs, originally charged to an individual award, or from expenditures incurred in an earned F&A fund.

2. **DEFINITION – Disallowed Cost:**

2.1. Costs may be disallowed when:

2.1.1 Direct cost expenditures on an award are not authorized by the sponsor terms/conditions/guidelines or University cost principles; or

2.1.2. Total direct cost expenditures exceed the total authorized amount for an agreement and are not to be reported as award required cost share; or

2.1.3. Line-item expenditures exceed an authorized amount and there is no institutional rebudgeting authority or written exception approved by the sponsor; or

2.1.4. The sponsor fails or refuses to make payment for expenditures incurred; or

2.1.5. Unallowable costs are incurred on an F&A fund. Allowable costs for F&A funds are defined in the UG, the ECU Cost Principles, and the ECU Spending Guidelines for F&A funds.

2.2. Direct Costs may be disallowed by OGC, an auditor (Federal or State or sponsor representative or Internal Audit), as an interpretation of appropriate guidelines/regulations/terms/conditions for the specific agreement, and

2.3. F&A costs may be disallowed by an auditor (Federal or State or sponsor representative or Internal Audit), or from ECU’s F&A Cognizant Agency DHHS –DCA, as part of the costs review and F&A rate development/approval process, or by the Institutional Trust Funds Office (as custodian of F&A funds), as an interpretation of appropriate guidelines/regulations/terms/conditions for the use of F&A funds.

3. **RESPONSIBILITIES:**

3.1. It is the responsibility of the Principal Investigator (PI) and departmental administrator (DA) to monitor for allowable/unallowable expenditures and authorized budget on a monthly basis.

3.2. It is the responsibility of the PI/DA to adjust expenditures and make necessary
accounting corrections, on a timely basis, to assure that unallowable costs and overruns do not occur.

3.3. It is the responsibility of OGC to periodically monitor award funds for allowable/unallowable direct costs and cost overruns.

3.3.1. OGC staff pre-review many direct cost transactions and all JV/Redistribution transactions.

3.3.1.1 OGC will not authorize unallowable costs for processing/posting to award funds.

3.3.1.2 OGC will not authorize costs in excess of approved budgets for processing/posting to award funds.

3.3.2. On a monthly basis, OGC staff access E-print and BIC/ODS system reports. The Banner system generated reports identify potential unallowable costs (based on cost principles) and identify award deficits and other potential compliance concerns.

3.3.2.1. Based on their reviews, upon discovery, OGC staff work with the PI/DA to clear any inappropriate costs.

3.3.2.2. Based on their reviews, upon discovery, OGC staff have unilateral authority to remove unallowable or deficit costs.

3.3.3. On an annual basis, OGC staff complete a sponsor financial status report/review (FSR) for each award. This review is conducted even when an FSR/FFR/Invoice or other report is not required by the sponsor. Part of the process is to review for potentially unallowable costs and budget overruns.

3.3.3.1. Based on the review, upon discovery, OGC staff work with the PI/DA to clear any inappropriate costs.

3.3.3.2. Based on the review, upon discovery, OGC staff have unilateral authority to remove unallowable or deficit costs.

3.3.4. On an annual basis, grant funds may be reviewed by A-133 or other auditors.

3.3.4.1. Based on the audit review, upon discovery, OGC staff work with the PI/DA to clear any inappropriate costs.
3.3.4.2. Based on the audit review, upon discovery, OGC staff have unilateral authority to remove disallowed costs.

3.3.5. It is the responsibility of the ECU Institutional Trust Funds Office (ITF) to establish procedures and pre-review costs (including JV transactions) charged to F&A funds for allowability. ITF reviews F&A costs based on both federal and state audit guidelines.

3.3.5.1. ITF will not authorize unallowable costs for processing/posting to an F&A fund.

3.3.5.2. State auditors review ITF/F&A funds on an annual basis and may disallow costs based on their interpretation/review of F&A guidelines.

3.3.5.2. ITF staff will work with OGC in removing any unallowable costs which might be identified either by an auditor or in a subsequent DHHS-DCA review during the F&A audit and rate development process.

3.3.5.3. ITF and OGC have unilateral authority to remove unallowable or disallowed costs.

4. **Removing Disallowed Costs**

When expenditures have been disallowed, the costs may not be transferred to another sponsored project fund. When disallowed costs are identified, the costs will be removed by journal voucher/cost transfer to an appropriate non-sponsored institutional fund.

4.1. Direct cost expenditures that are normally F&A under the cost principles or other sponsor requirements, and/or are not otherwise prohibited as an F&A cost, may be redistributed to an appropriate F&A fund.

4.2. Expenditures that are not allowable as either a direct or an F&A cost must be redistributed to a non-sponsored, non-F&A institutional fund.

4.3. When an immediate alternate fund source cannot be identified, costs may be temporarily transferred to an OGC audit clearing fund.

4.3.1. Disallowed direct costs may be temporarily transferred to fund 219922.
4.3.2. Disallowed costs incurred on an F&A fund may be temporarily transferred to fund 219923.

4.3.3. Disallowed costs in either audit fund must be reallocated to an appropriate institutional fund by each fiscal year-end (6/30).

4.4. For a disallowed direct cost, any redistribution will include activity code UDC001.

4.5. For a disallowed F&A cost, any redistribution will include activity code UIC001.

4.6. OGC will review/approve all reallocations, assuring that an appropriate fund, account code and activity code are used.

**Additional Information**

5.1. OGC and ITF will periodically review procedures for processing disallowed costs, for any necessary updates due to changes in audit guidelines, other regulations, or other sponsor or University procedures or requirements.

5.2. For additional information on allowable direct expenditures to a sponsored agreement, contact your OGC representative or write GRANTSC@ecu.edu.

5.3. For additional information on allowable expenditures from F&A funds, contact your ITF representative or write ITF-SPECIALFUNDS@ecu.edu