



**Approving University Official(s):** Vice President and Chief Financial Officer

**Responsible Office:** Financial Operations, Accounting Services for Research and Sponsored Programs

**Effective date:** July 18, 2025

**Next review date:** March 1, 2028

## Charging Sponsored Programs

### Policy Statement

Direct costs borne by sponsored programs awarded to Northwestern University must be allowable, allocable, necessary, and reasonable for carrying out objectives of the project. The University extends these requirements to both federal and non-federal sponsored programs to ensure consistent management. The principal investigator is responsible for overall management and administration of sponsored programs based on the terms and conditions dictated by the sponsor, federal regulations, and in accordance with university policy. The principal investigator must authorize all expenditures charged to sponsored programs. In the event an expense is deemed unallowable, it must be immediately transferred to an appropriate funding source.

### Purpose

As a recipient of sponsored funding, the University must comply with 2 CFR 200 [Uniform Guidance Subpart E: Cost Principles](#) which describes the treatment of costs on sponsored program activities (direct and indirect) that can be billed to the federal government. The Uniform Guidance applies to all federally funded programs including projects which are federally funded through a non-federal agency. These cost principles also identify charges that typically cannot be charged to sponsored programs and considered unallowable expenses. As such, all sponsored program costs must meet the allowable cost criteria to be charged to a project. This policy serves to define those criteria and identify the roles responsible for application.

### Audience

Deans, Directors, Department Heads, Faculty, Administrative Personnel, and Sponsored Program Personnel.

### Definitions

**Allocable:** A cost that can be directly tied to a specific program or activity because it provides a clear and measurable benefit to that project

**Allowable:** A cost is allowable if it is permitted as a cost within general federal regulations, the terms of a specific award, and the institution's policies.

**Consistent:** Costs are consistent when like expenses incurred under like circumstances are treated in the same manner (i.e. assigned to the project as direct or indirect).

**Direct costs:** Direct costs are those that can be identified specifically with a particular objective, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

**Indirect costs:** Indirect costs on a sponsored program refers to an expense that is not directly attributable to a single project but is necessary for the overall research operation, such as building maintenance, utilities, administrative staff salaries, library access, and general facility upkeep; essentially, costs incurred for common or joint objectives that cannot be easily assigned to a specific project.

**Necessary:** A cost is necessary when it is required for the performance of the objectives of the sponsored program.

**Principal investigator (PI):** A principal investigator is the person or people responsible for a research program or clinical trial and has primary oversight of technical compliance, completion of programmatic work, and fiscal stewardship of sponsored funds.

**Reasonable:** A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

**Unallowable costs:** Unallowable costs are expenses that are prohibited from being borne by the sponsored program in accordance with sponsor guidelines, federal regulations, terms and conditions of the program, or university policy. Unallowable costs must be removed immediately upon discovery.

## Policy Implementation

Expenses charged to sponsored programs are subject to review and approval throughout the life cycle of the grant. Principal investigators have the primary responsibility to ensure charges are allowable and accurately applied. In addition, department administrators must maintain adequate documentation to support expenditures borne by the award and should review expenditures monthly to facilitate comprehensive reconciliations. All sponsored research staff are expected to understand and comply with the policy.

### Allowable Costs

Costs directly charged to a sponsored program must conform to the terms and conditions of the specific award as well as be allowable, allocable, necessary, and reasonable for carrying out the objectives of the project. On occasion, costs may be allowable to a sponsor, but not allowable under university policy. Therefore, it is imperative to consult with ASRSP on any allowability concerns.

Costs should generally reflect the approved budget. Sponsor approval may be requested for specific circumstances.

Common allowable costs:

- Salaries of research personnel
- Equipment
- Animals (purchase and care)
- Laboratory supplies
- Publishing costs
- Registration fees
- Patient costs

### **Cost Share**

When a sponsored program has a cost share obligation, expenses covered by discretionary funds or sponsored funding awarded for the purpose of covering applicable costs must be consistent with the terms of the project and allowable in accordance with costs described in 2 CFR 200 Subpart E—Cost Principles.

### **Unallowable Costs**

When unallowable costs are discovered, a transfer to remove the expense is required. The transfer should be made as soon as the need for correction is identified. Departments must make every effort to transfer the costs within the fiscal year in which the original transaction occurred. Cost transfers over one year old are not allowed. These costs must be transferred to non-sponsored chart strings. See the Cost Transfers to Sponsored Projects policy. If an identified unallowable cost is not removed by a department administrator within a reasonable amount of time, ASRSP staff may transfer the cost to a departmental chart string.

Unallowable costs often include:

- Advertising
- Alcoholic beverages
- Bad debts
- Donations
- Entertainment
- Goods and services for employee personal use
- Lobbying
- Cost overruns and overdrafts

Overdrafts are unallowable cost and should be removed immediately upon discovery.

### **Allocability**

Once allowability criteria have been met, the cost must be evaluated against the criterion of allocability. This requires an assessment to determine if costs were incurred solely to support or advance the work of a specific sponsored program. It also requires assigning a cost, or a group of costs, to one or more account codes, proportionate to the equitable relation of each sponsored program.

## **Reasonableness**

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. Costs must be essential to carrying out sponsored program objectives and not considered excessive or extravagant.

## **Unexpected or Extraordinary Circumstances**

In unexpected or extraordinary circumstances, a sponsoring agency may direct a normally unallowable cost to be considered a direct cost for a specific program if the inherent purpose of the program requires it. This cost will be considered allowable if it satisfies the requirements for direct costs and is sufficiently documented. All costs charged to sponsored programs under these circumstances should be treated consistently, regardless of funding source.

## **Documentation**

Proper documentation is critical for determining allowability and must be verified by the individual(s) positioned to attest to the appropriateness of a cost. Documents including invoices, purchase orders, and detailed explanations are deemed appropriate, and must be maintained by the department in accordance with the University Records Retention Policy and the terms and conditions of the award.

At the end of the program period, the PI must certify that all expenditures charged to the sponsored program chart string are allowable in accordance with the terms and conditions of the award, funder guidelines, federal regulations, and university policy. Individuals with direct knowledge of the project (delegate, department head or departmental administrators) may certify on behalf of the PI.

## **Exceptions**

Exceptions to this policy will be assessed for approval by the Accounting Services for Research and Sponsored Programs (ASRSP) Office on a case-by-case basis. Exception requests must be presented with a clearly documented, compelling explanation describing the circumstance resulting in non-compliance with standard university requirements.

## **Consequences of Violating this Policy**

The university is subject to financial penalties as well as damage to its reputation for failing to comply with terms and conditions of a sponsored program, federal and sponsor regulations, and university policy. Specific risks include the forfeiture of payments, audit findings and increased scrutiny, a decrease in future funding, and additional administrative burden. Additional fines and interest may also apply.

## **Related Information**

Cost Transfers to Sponsored Programs: <https://www.northwestern.edu/asrsp/resources/policies/cost-transfers-sponsored-programs.pdf>

[Uniform Guidance Cost Principles](#)

## **Contacts**

The following office can address questions regarding this Policy:

Accounting Services for Research and Sponsored Programs

<https://www.northwestern.edu/asrsp/>  
[asrspweb@northwestern.edu](mailto:asrspweb@northwestern.edu)

## **History**

This policy replaces the existing policy, which was in effect as of November 11, 2006.

## **Policy URL:**

<https://www.northwestern.edu/asrsp/resources/policies/charging-sponsored-programs.pdf>