

Overview

The direct charging of costs to federally sponsored grants and contracts (herein referred to as “sponsored project(s)”) must be done in compliance with the Federal cost principles contained in [2 CFR Part 200](#) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and with University policy. Therefore, direct costs charged to sponsored projects must be allowable, allocable, and reasonable under the Federal requirements; and that the University’s financial management system/process must ensure that no one person has complete control over all aspects of a financial transaction.

In addition, sponsors of individual awards may include special terms and conditions that must be considered when incurring costs. Consult with the Office of Sponsored Projects (“OSP”) for assistance regarding questions related to the allowability of a direct charge.

Allowable Costs

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

To be allowable under [2 CFR Part 200.403](#) costs must:

- be necessary and reasonable for the performance of the sponsored project and be allocable thereto under these principles;
- conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items;
- be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the University;
- be consistently treated (a cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost);
- be determined to be in accordance with generally accepted accounting principles (“GAAP”);
- not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period; and
- be adequately documented.

Typical costs* charged directly to a sponsored project include but are not limited to:

- compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs;
- materials and supplies consumed or expended in the performance of the sponsored project;
- domestic and foreign travel in accordance with Federal regulations and University policy ([Policy 3301 Travel on University Business](#));
- services from recognized University Service Providers.

*To ensure the allowability of a direct cost prior to incurring the cost, review Yale policies, terms and conditions of the sponsored award, applicable federal regulations, and applicable funding announcement. Any additional questions should be directed to OSP prior to incurring the expense.

Reasonable Costs

[2 CFR Part 200.404](#) 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 operation of the institution or 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 institution generally, including sponsored projects?

Allocable Costs

A cost is allocable to a particular sponsored project if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits 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 [2 CFR Part 200](#), is deemed to be assignable in part to sponsored projects.

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, the amounts thus authorized for such purchases are assignable to that sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved.

For specific guidance on the use and development of allocation methods, please refer to [Guide 1304 GD.02 Cost Allocation Methodologies](#).

Any costs allocable to a particular sponsored agreement under the standards provided in [2 CFR Part 200](#) may not be shifted to other sponsored agreements in order to meet deficiencies caused by overruns or other fund considerations, 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 may not be shifted to federally sponsored projects.

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