



Guide 1305 GD.07

Determining Allowability, Reasonableness, and Allocability of Costs for Sponsored Projects

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Overview

This Guide provides assistance to the community regarding the direct charging of costs to sponsored projects while maintaining compliance with the Federal cost principles [2 CFR Part 200 \(OMB Circular A-81\)](#) and University policy. As such, the University is responsible for ensuring that costs charged to a sponsored award are allowable, allocable, and reasonable under the Federal cost principles; and that the University's financial management system shall ensure that no one person has complete control over all aspects of a financial transaction.

In addition, sponsors may for individual awards include special terms and conditions that must be considered when incurring costs. Consult with the Office of Sponsored Projects for assistance with any concerns or questions related to the allowability of a specific type of expense or charge.

Allowable Costs

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

To be allowable under [2 CFR Part 200.403 \(OMB Circular A-81\)](#) costs must:

- be necessary and reasonable for the performance of the award and be allocable according to A-81 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.

[2 CFR Part 200](#) details the allowability of particular elements of cost. When an item is questionable, OSP should be consulted **before** the cost is incurred.

Typical costs charged directly to a sponsored project include:

1. compensation of employees for performance of work under the sponsored agreement, including related fringe benefit costs;
2. costs of materials consumed or expended in the performance of the sponsored project;
3. travel in accordance with the University's policy ([Policy 3301](#) - Travel on University Business);
4. other allowable items of expense incurred for the sponsored project.

Costs of materials from stock/services rendered by specialized facilities or other institutional service operations may be included as costs under federally sponsored agreements, provided such items are:

1. consistently treated in similar circumstances as direct costs, rather than Facilities and Administrative (indirect) costs; and
2. charged under a recognized method of computing actual costs.

Reasonable Costs

[2 CFR Part 200](#) 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:

1. Is the cost of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored project
2. 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
3. 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
4. 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 cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) 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:

1. it is incurred solely to advance the work under the sponsored agreement; or
2. it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods; or
3. 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.

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

In the rare instances in which a proper cost allocation cannot ultimately be determined using any reasonable methods, the cost may be charged to a single sponsored project.

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 the sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved.

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 agreements.

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