

DETERMINING ALLOWABILITY, REASONABLENESS AND ALLOCABILITY OF COSTS FOR GRANTS AND SPONSORED PROJECTS

When a sponsor awards funds to Kutztown University in support of a program or project, it requires the University to manage the funds prudently and ensure that costs are allowable, reasonable and allocable. The federal regulations that govern this determination for federal funding are contained in the 2 CFR Part 200. In addition, individual awards may include special terms and conditions which must be considered when incurring costs. Principal Investigators or Project Directors are responsible for ensuring the appropriateness of costs charged to their sponsored program or project accounts.

Determination Factors

When incurring costs against sponsored funds (i.e., making payments utilizing external funding from grants, contracts and cooperative agreements), the Project Director administering the project is responsible for ensuring that all costs meet allowability, reasonableness and allocability standards prior to the expense. The allowability, reasonableness and allocability may be difficult to determine for certain items of cost, and prior written approval from the sponsor may be required. The Project Director must work with the Office of Grants and Sponsored Projects in obtaining approval, and expenditures must be approved by the Office of Grants and Sponsored Projects.

Allowability

§200.403 Factors affecting allowability of costs.

Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) Be accorded consistent treatment. 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.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) 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. See also §200.306 Cost sharing or matching paragraph (b).

- (g) Be adequately documented. See also §200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

General Provisions for Selected Items of Cost (§200.420 - §200.475) provides principles to be applied in establishing allowability of certain items. Also, allowability of certain items may be addressed in the terms and conditions of specific awards, and can vary. When an item is questionable, the Office of Grants and Sponsored Projects must be contacted before the cost is incurred.

The following items of cost are unallowable according to 2 CFR 200: Certain Advertising and Public Relations; Alcoholic Beverages; Alumni Activities; Bad Debts; Certain Legal Costs; Contributions or Donations; Certain Entertainment Costs; Fines and Penalties; Fund Raising and Investment Management; Goods and Services for Personal Use; Lobbying; Loses on Sponsored Agreements; Commencement and Convocation Costs; and Certain Memberships.

Reasonableness

§200.404 Reasonable costs.

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. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

Allocability

§200.405 Allocable costs.

- (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:
 - (1) Is incurred specifically for the Federal award;

- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
 - (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.
- (b) All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
 - (c) Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.
 - (d) Direct cost allocation principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must 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, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a Federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital asset involved when no longer needed for the purpose for which it was originally required. See also §200.310 Insurance coverage through 200.316 Property trust relationship and 200.439 Equipment and other capital expenditures.
 - (e) If the contract is subject to CAS, costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.

Resource:

Link to 2 CFR 200 - https://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl