

**Middle Tennessee State University**

**OFFICE OF RESEARCH AND SPONSORED PROJECTS**

**Departmental Procedure ORSP 001 Determining the Allowability, Allocability, and Reasonableness of Costs on Sponsored Projects**

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**I. Purpose**

The Policy establishes University guidelines on determining the allowability, allocability, and reasonableness of costs on sponsored projects. Federal regulations that govern this determination are contained in Office of Management and Budget 2 CFR 200 Uniform Administrative Requirements.

**II. Determination Factors**

When incurring costs against sponsored funds – i.e., making payments utilizing funds from grants, contracts, and cooperative agreements in support of University projects – the academic unit administering the project must determine three factors regarding the cost prior to processing financial paperwork. These three factors are:

**a. Allowability of Costs**

This factor determines whether or not the cost being considered would be authorized for payment under the terms of the award made by the sponsor. The basic question here is, “Will the sponsor pay for this expense?”

The tests of allowability of costs are:

1. they must be reasonable;
2. they must be allocable to sponsored projects under the principles and methods provided herein;
3. they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances, and in compliance with the University's Cost Accounting Standards Board Disclosure Statement; and
4. they must conform to any limitations or exclusions set forth in 2 CFR 200 Uniform Administrative Requirements, the award document, or the agency's guidelines as to types or amounts of cost items.

#### **b. Allocability of Costs**

A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored project, 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. The basic question here is, "Is the expense related to the project?"

Subject to the foregoing, a cost is allocable to a sponsored project if:

1. it is incurred solely to advance the work under the sponsored project;
2. it benefits both the sponsored project 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 200 Uniform Administrative Requirements, is deemed to be assignable in part to sponsored projects.

Where the purchase of equipment or other capital items is specifically authorized under a sponsored project, the amounts thus authorized for such purchases are assignable to the sponsored project regardless of the use that may subsequently be made of the equipment or other capital items involved.

**NOTE:** *Any costs allocable to a particular sponsored project under the standards provided herein may not be shifted to other sponsored projects in order to meet deficiencies caused by overruns or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored project, or for other reasons of convenience. In addition, any costs allocable to activities sponsored by industry, foreign governments, or other sponsors may not be shifted to federally-sponsored projects.*

#### **c. Reasonableness of Costs**

A cost may be considered reasonable if the nature of the goods or services acquired or

applied, and the amount involved therefore, reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. The basic question here is, “Is the expense reasonable?”

Major considerations involved in the determination of the reasonableness of a cost are:

1. whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored project;
2. the restraints or requirements imposed by such factors as arm’s-length bargaining, Federal and State laws and regulations, sponsored agreement terms and conditions, or agency guidelines;
3. whether or not 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; and
4. the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored projects; and
5. whether or not purchased items will be consumed/used within the specified project period.

### **III. Review Strategy / Documents**

In determining the above, the following documents must be reviewed:

#### **a. Approved Project Budget**

The allowability of a cost is first determined by examining the budget that the agency approved for the project. Does the proposed expense show up under a line item of the budget? If the item does not appear in the budget, then other reviews must be conducted to determine if the item is allowable under rebudgeting authority that may be granted in the situation, or if the items may be allowable if prior approval is obtained in writing from the agency. If the budget has not been incorporated into the award document, the allowability must be determined in accordance with allowable cost principles of the agreement (2 CFR 200 Uniform Administrative Requirements, plus agency deviations).

#### **b. The Award Document or Contract**

Allowability of certain costs may be addressed within the award document or the contract/agreement issued for the sponsored project. For example, grant awards may identify certain costs that are specifically unallowed by the agency based upon recommendations from the peer review system.

**c. Agency Guidelines**

Even if the type of expense proposed appears on the budget, the specific expense may not be allowable. Most Federal agencies have guidelines for administering grants. These guidelines give direction on the allowability of certain costs. For example, travel costs may appear in the budget, but the specific cost for airfare to Europe for a meeting may require prior approval according to the guidelines of the specific sponsoring agency.

**d. 2 CFR 200 Uniform Administrative Requirements**

Universities rely on 2 CFR 200 Uniform Administrative Requirements as the primary overarching guidance for the determination of reasonableness, allocability, and allowability of costs proposed on Federal grants, contracts, and cooperative agreements.