

Determining Allowability, Reasonableness and Allocability of Costs for Sponsored Programs

When a sponsor awards funds to Shippensburg 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 Office of Management and Budget Uniform Guidance (UG): Cost Principles, Subpart E. In addition, individual awards may include special terms and conditions which must be considered when incurring costs.

When incurring costs against sponsored funds (i.e., making payments utilizing external funding from grants, contracts and cooperative agreements), the principal investigator (PI) administering the project is responsible for ensuring that all costs are allowable, reasonable and allocable prior to incurring the expense. All expenditures must be approved in advance by the Institute for Public Service and Sponsored Programs (IPSSP), reviewed by the Grant Accountant, and in some instances signed off on by the Associate Vice President of Finance and Administration. This is done electronically in SAP for purchase requisitions and via a paper approval system for funds reservations.

Allowable

All costs must be allowable under federal regulations and sponsor terms and conditions. To be allowable costs must meet the following criteria:

1. Be necessary and reasonable for the performance of the sponsored project and be allocable there to under these principles.
2. Conform to any limitations or exclusions set forth in the UG or in the terms and conditions of the award.
3. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the University.
4. Be accorded consistent treatment. A cost may not be assigned to a sponsored project as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the sponsored project as an indirect cost.
5. Be determined in accordance with generally accepted accounting principles (GAAP).
6. 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.
7. Be adequately documented.

The allowability of certain types of costs may be addressed in the terms and conditions of specific awards, and can vary. When an item is questionable, the IPSSP should be contacted before the cost is incurred.

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. 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 Shippensburg University or the proper and efficient performance of the sponsored project.

- b. The restraints or requirements imposed by such factors as arm's length bargaining, federal and state laws and regulations, and sponsored agreement terms and conditions.
- 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 University, its employees, its students, the public at large, and the Federal government.
- e. Whether the University significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the sponsored project's cost.

Allocable

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 a cost objective in accordance with relative benefits received or other equitable relationships. This standard is met if the cost:

- 1. Is incurred specifically for work under the sponsored agreement.
- 2. Benefits both the sponsored project and other work of the University and can be distributed in proportions that may be approximated using reasonable methods.
- 3. Is necessary to the overall operation of the University and is assignable in part to the sponsored project in accordance with the principles of the UG.

In addition, the following criteria must also be taken into consideration:

- a. Any costs allocable to a particular sponsored agreement under the standards provided in the guidance, 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. In addition, any costs allocable to activities sponsored by industry, foreign governments or other sponsors may not be shifted to federally sponsored agreements.
- b. 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 a reasonable basis. The PI must consult with the IPSSP in determining the basis for such allocations.
- c. 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.