

ALLOWABLE, ALLOCABLE, AND REASONABLE COSTS

The concepts of allowability, allocability, and reasonableness of costs address directly the legitimacy of a cost charged against a specific sponsored research award. Determination of allowability, allocability, and reasonableness of a given expense is based on specific guidelines of the sponsor and according to federal cost principles.

Allowability, allocability, and reasonableness are defined and determined by the Office of Management and Budget (OMB), the sponsor's requirements and/or College policy. OMB Circular A-21, Section C, states that "The recipient institution is responsible for ensuring that costs charged to a sponsored research agreement are allowable, allocable, and reasonable ..." Each financial transaction charged against a sponsored research award is evaluated against these three concepts.

A *primary* responsibility of the Office of Research is to insure that all costs charged to the sponsored research award are allowable and allocable. A determination of allowability and allocability for a given cost is based on the specific guidelines of the sponsoring agency and according to federal cost principles.

ALLOWABILITY

Expenses charged to a sponsored research award must meet the following allowability criteria:

- The costs must be reasonable.
- The costs must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances.
- The costs must conform to any limitations or exclusions set forth in the sponsored agreement or in the Federal Cost Principles (OMB Circular A-21).

ALLOCABILITY

Once allowability criteria have been met, the cost must be evaluated against the criterion of allocability. That is, the cost has been incurred solely to support or advance the work of a specific sponsored research award. It also means the process of assigning a cost, or a group of costs, to one or more cost objectives,

in reasonable and realistic proportion to the benefit provided or other equitable relationship. A cost objective may be a major function of the institution, a particular service or project, a sponsored agreement, or Facilities and Administration Cost activity. The process may entail assigning a cost(s) directly to a final cost objective or through one or more intermediate cost objectives.

REASONABLENESS

The cost must be able to withstand public scrutiny, i.e., objective individuals not affiliated with the institution would agree that a cost is appropriate on a sponsored research award or as a component in its Facilities and Administration Cost proposal.

Once a determination of allowability, allocability, and reasonableness has been made, it is important that all expenses (those charged to sponsored research accounts and department GL accounts) be charged to the appropriate expenditure type/natural class. Budget and expenditure information recorded in the accounting system serves the basis for: (a) the preparation of yearly financial statements for the University; (b) departmental-level planning and reporting; (c) project/account specific planning and reporting; (d) Facilities and Administration Cost proposal preparation and rate calculation; and (e) audit reviews and many other uses.

[OMB Circular A-21 "Cost Principles for Educational Institutions"](#)