

1 **Contracts and Grants Expenditures -** 2 **Allowability and Appropriateness**

3 Effective: Moved to Policy Library from UPM 9.6(2)

4 Reviewed and Updated: August 16, 2016

5 Contact: [Sponsored Programs Accounting](#)

6 **Introduction**

7 Principal investigators (PIs) and administering departments are responsible for ensuring that all
8 expenditures using sponsored funds are allowable and appropriate.

9 **Policy Statement**

10 In order for costs to be charged to a sponsored project, they must be allowable, reasonable and allocable.
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12 **Allowable expenses** are those costs permitted under applicable university policies and terms imposed by
13 the funding source, as governed by written policies, laws, and contractual documents.
14

15 The tests of allowability of costs are:

- 16 • They must be necessary and reasonable for the performance of the federal award;
- 17 • They must be allocable to sponsored agreement to which they are charged;
- 18 • They must be treated consistently with generally accepted accounting principles. All costs must be
19 treated as either a direct cost only or as an indirect cost (F&A) only as described in the applicable ISU
20 costing policy;
- 21 • They must conform to any limitations or exclusions as stated in the sponsored agreement as to types
22 or amounts of cost items;
- 23 • They must not be used to meet cost sharing or matching requirements of any other federally-financed
24 program; and
- 25 • They must be adequately documented.

26 Allowability is the joint responsibility of those who initiate the transaction and those who review and
27 approve it.
28

29 **Reasonable expenses** are those expenses that a prudent person would find fitting and necessary to
30 accomplish the goals of the project.
31

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

- 33 • Whether the cost is of a type generally recognized as necessary for the operation of the institution or
34 the performance of the sponsored agreement;
- 35 • The restraints or requirements imposed by such factors as arm's-length bargaining, federal and Iowa
36 laws and regulations, and sponsored agreement terms and conditions;
- 37 • Market prices for comparable goods or services for the geographic area.

- 38 • Whether the individual concerned acted with due prudence given the circumstances and their
39 responsibilities to the institution; and
40 • The costs are consistent with established institutional policies and procedures applicable to the work of
41 the institution generally, including sponsored agreements.

42 Reasonableness is the joint responsibility of those who initiate the transaction and those who review and
43 approve it.

44

45 **Allocable expenses** are those costs that are chargeable or assignable to the sponsored project in
46 accordance with the relative benefit received.

47

48 A cost is allocable to a sponsored agreement if:

- 49 • It is incurred solely to advance the work under the sponsored agreement;
50 • It benefits both the sponsored agreement and other work of the institution in proportions that can be
51 approximated through use of reasonable methods; or
52 • It is necessary to the overall operation of the institution and is deemed to be assignable in part to the
53 sponsored project.

54 Allocability involves judgment and detailed knowledge of programmatic objectives and is primarily the
55 responsibility of the principal investigator and administering department.

56 **Federal Cost Principles**

57 For federally sponsored projects, OMB Circular A-21 (Cost Principles for Educational Institutions) or 2 CFR
58 Part 200, Subpart E (Cost Principles) as applicable, federal agency guidelines, and award-specific terms
59 and conditions must be used to determine allowability.

60 **Resources**

61 **Links**

- 62 • [Cost Principles for Educational Institutions \(2 CFR, Part 220\)](#)
63 • [Office of Sponsored Programs Administration \(OSPA\)](#)
64 • [Sponsored Programs Accounting \(SPA\)](#)
65 • [Policy: Research Objectives and Responsibilities](#)
66 • [Contracting at ISU](#)