

3.2 REASONABLENESS, ALLOCABILITY AND ALLOWABILITY OF COSTS

Policy: Title X sub-recipients must have a system to determine the reasonableness, allocability and allowability of expenditures (hereafter, referred to as costs) that are in accordance with Federal cost principles outlined in *45 CFR 74.21 and 45 CFR 92.20*.

Procedure:

For each kind of organization, there is a set of Federal principles for determining allowable and reasonable costs. Allowable costs are determined in accordance with the cost principles applicable to the organization incurring the costs.

For the costs of a state, local or Indian tribal government, the principles in *OMB Circular A-87* are applicable. Private, non-profit agencies, other than an institution of higher education or hospital must use the principles in *OMB Circular A-122*.

For Private, Non-Profit Agencies:

1. **Reasonable Costs:** A cost is reasonable if, in its nature or 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 costs. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining the reasonableness of a given cost, consideration shall be given to:
 - a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
 - b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arm's length bargaining, Federal and State laws and regulations, and terms and conditions of the award.
 - c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.
 - d. Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.
2. **Allocable Costs:** A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:
 - a. Is incurred specifically for the award.
 - b. Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
 - c. Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.
 - d. Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.
3. **Allowable Costs:** *Paragraphs 1 through 53 of OMB Circular A-122* outline the principles to be applied in establishing the allowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost in this circular does not mean that it is unallowable; rather, determination as to allowability in each case should be based on the treatment or principles provided for similar or related items of cost. Private, non-profit agencies must follow the allowability guidelines outlined in *OMB Circular A-122* for the following costs:

- a. Advertising and public relations costs
- b. Advisory councils
- c. Alcoholic beverages
- d. Audit costs and related services
- e. Bad debts
- f. Bonding costs
- g. Communication costs
- h. Compensation for personal services
- i. Contingency provisions
- j. Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement
- k. Depreciation and use allowances
- l. Donations and contributions
- m. Employee morale, health, and welfare costs
- n. Entertainment costs
- o. Equipment and other capital expenditures
- p. Fines and penalties
- q. Fund raising and investment management costs
- r. Gains and losses on depreciable assets
- s. Goods or services for personal use
- t. Housing and personal living expenses
- u. Idle facilities and idle capacity
- v. Insurance and indemnification
- w. Interest
- x. Labor relations costs
- y. Lobbying
- z. Losses on other sponsored agreements or contracts
- aa. Maintenance and repair costs
- bb. Materials and supplies costs
- cc. Meetings and conferences
- dd. Memberships, subscriptions, and professional activity costs
- ee. Organization costs
- ff. Page charges in professional journals
- gg. Participant support costs
- hh. Patent costs
- ii. Plant and homeland security costs
- jj. Pre-agreement costs
- kk. Professional services costs
- ll. Publication and printing costs
- mm. Rearrangement and alteration costs
- nn. Reconversion costs
- oo. Recruiting costs
- pp. Relocation costs
- qq. Rental costs of buildings and equipment
- rr. Royalties and other costs for use of patents and copyrights
- ss. Selling and marketing
- tt. Specialized service facilities
- uu. Taxes
- vv. Termination costs applicable to sponsored agreements
- ww. Training costs
- xx. Transportation costs
- yy. Travel costs
- zz. Trustees

Details may found beginning on page 20 of the following document:

http://www.whitehouse.gov/sites/default/files/omb/assets/omb/circulars/a122/a122_2004.pdf

For State, Tribal or Local Governments:

1. **Reasonable Costs:** A cost is reasonable if, in its nature or 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 costs. The question of reasonableness is particularly important when governmental units or components are predominately federally-funded. In determining the reasonableness of a given cost, consideration shall be given to:
 - a. Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award.
 - b. The restraints or requirements imposed by such factors as generally accepted sound business practices, arm's length bargaining, Federal and State laws and regulations, and terms and conditions of the award.
 - c. Whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government.
 - d. Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.
 - e. Market prices for comparable goods or services.
2. **Allocable Costs:**
 - a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
 - b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.
 - c. Any cost allocable to a particular Federal award or cost objective under the principles provided for in this Circular may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the Federal awards, or for other reasons.
 - d. Where an accumulation of indirect costs will ultimately result in charges to a Federal award, a cost allocation plan will be required as described in *OMB Circular A-87*. (http://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation_circulars_pdf/a87_2004.pdf)
3. **Allowable Costs:** *Sections 1 through 43 of OMB A-87* outline the principles to be applied in establishing the allowability of certain items of cost. These principles apply whether a cost is treated as direct or indirect. Failure to mention a particular item of cost in this circular does not that it is unallowable; rather, determination as to allowability in each case should be based on the treatment or principles provided for similar or related items of cost. State, local and tribal governments must follow the allowability guidelines outlined in *OMB Circular A-87* for the following costs:

<ol style="list-style-type: none"> a. Advertising and public relations costs b. Advisory councils c. Alcoholic beverages d. Audit costs and related services e. Bad debts f. Bonding costs g. Communication costs h. Compensation for personal services i. Contingency provisions 	<ol style="list-style-type: none"> j. Defense and prosecution of criminal and civil proceedings, and claims k. Depreciation and use allowances l. Donations and contributions m. Employee morale, health, and welfare costs n. Entertainment costs o. Equipment and other capital expenditures
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- p. Fines and penalties
- q. Fund raising and investment management costs
- r. Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs
- s. General government expenses
- t. Goods or services for personal use
- u. Idle facilities and idle capacity
- v. Insurance and indemnification
- w. Interest
- x. Lobbying
- y. Maintenance, operations, and repairs
- z. Materials and supplies costs
- aa. Meetings and conferences
- bb. Memberships, subscriptions, and professional activity costs
- cc. Patent costs
- dd. Plant and homeland security costs
- ee. Pre-award costs
- ff. Professional service costs
- gg. Proposal costs
- hh. Publication and printing costs
- ii. Rearrangement and alteration costs
- jj. Reconversion costs
- kk. Rental costs of building and equipment
- ll. Royalties and other costs for the use of patents
- mm. Selling and marketing
- nn. Taxes
- oo. Termination costs applicable to sponsored agreements
- pp. Training costs

Details may be found beginning on page 15 of the following document:

http://www.whitehouse.gov/sites/default/files/omb/assets/agencyinformation_circulars_pdf/a87_2004.pdf