

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 *2 CFR 200.E- Cost Principles*.

Procedure:

The Code of Federal Regulations details the uniform cost principles for Federal awards that determine allowable and reasonable costs. These cost principles were formerly compiled into *OMB Circular A-87* for state, local, or Indian tribal government entities, and *OMB Circular A-122* for private or non-profit agencies other than institutions of higher education or hospitals. They are now found in *2 CFR 200.E- Cost Principles*.

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:
 - 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.
 - 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.
 - 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.
 - 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:
 - Is incurred specifically for the award.
 - Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, and
 - Is necessary to the overall operation of the organization and is assignable in part to the Federal award.
 - i. All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
 - ii. 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:** *2 CFR 200.403- Factors affecting allowability of costs* outlines 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.

4. **Determining if a cost is allowable:** Private, non-profit agencies must follow the allowability guidelines outlined in *2 CFR 200.E- Cost Principles* for the following costs:

- Advertising and public relations costs
- Advisory councils
- Alcoholic beverages
- Audit costs and related services
- Bad debts
- Bonding costs
- Communication costs
- Compensation for personal services
- Contingency provisions
- Defense and prosecution of criminal and civil proceedings, claims, appeals, and patent infringement
- Depreciation and use allowances
- Donations and contributions
- Employee morale, health, and welfare costs
- Entertainment costs
- Equipment and other capital expenditures
- Fines and penalties
- Fund raising and investment management costs
- Gains and losses on depreciable assets
- Goods or services for personal use
- Housing and personal living expenses
- Idle facilities and idle capacity
- Insurance and indemnification
- Interest
- Labor relations costs
- Lobbying
- Losses on other sponsored agreements or contracts
- Maintenance and repair costs
- Materials and supplies costs
- Meetings and conferences
- Memberships, subscriptions, and professional activity costs
- Organization costs
- Page charges in professional journals
- Participant support costs
- Patent costs
- Plant and homeland security costs
- Pre-agreement costs
- Professional services costs
- Publication and printing costs
- Rearrangement and alteration costs
- Reconversion costs
- Recruiting costs
- Relocation costs
- Rental costs of buildings and equipment
- Royalties and other costs for use of patents and copyrights
- Selling and marketing
- Specialized service facilities
- Taxes
- Termination costs applicable to sponsored agreements
- Training costs
- Transportation costs
- Travel costs
- Trustees

Additional details may be found in [2 CFR 200- Cost Principles](https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=ef4273cf2a1ee8736bdc721a81a69f1c&mc=true&n=pt.1.200&r=PART&ty=HTML#sp2.1.200.e) of the Code of Federal Regulations, (<https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=ef4273cf2a1ee8736bdc721a81a69f1c&mc=true&n=pt.1.200&r=PART&ty=HTML#sp2.1.200.e>).

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:
 - 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.
 - 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.
 - 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.
 - Significant deviations from the established practices of the organization which may unjustifiably increase the award costs.
 - Market prices for comparable goods or services.
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:
 - Is incurred specifically for the award.
 - Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, and
 - Is necessary to the overall operation of the organization and is assignable in part to the Federal award.
 - i. All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
 - ii. 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.
 - 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 *2 CFR 200.416- Cost allocation plans and indirect cost proposals*.
3. **Allowable Costs:** *2 CFR 200.E- Cost Principles* outlines 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.

4. **Determining if a cost is allowable:** State, local and tribal governments must follow the allowability guidelines outlined in *2 CFR 200.E- Cost Principles* for the following costs:
- Advertising and public relations costs
 - Advisory councils
 - Alcoholic beverages
 - Audit costs and related services
 - Bad debts
 - Bonding costs
 - Communication costs
 - Compensation for personal services
 - Contingency provisions
 - Defense and prosecution of criminal and civil proceedings, and claims
 - Depreciation and use allowances
 - Donations and contributions
 - Employee morale, health, and welfare costs
 - Entertainment costs
 - Equipment and other capital expenditures
 - Fines and penalties
 - Fund raising and investment management costs
 - Gains and losses on disposition of depreciable property and other capital assets and substantial relocation of Federal programs
 - General government expenses
 - Goods or services for personal use
 - Idle facilities and idle capacity
 - Insurance and indemnification
 - Interest
 - Lobbying
 - Maintenance, operations, and repairs
 - Materials and supplies costs
 - Meetings and conferences
 - Memberships, subscriptions, and professional activity costs
 - Patent costs
 - Plant and homeland security costs
 - Pre-award costs
 - Professional service costs
 - Proposal costs
 - Publication and printing costs
 - Rearrangement and alteration costs
 - Reconversion costs
 - Rental costs of building and equipment
 - Royalties and other costs for the use of patents
 - Selling and marketing
 - Taxes
 - Termination costs applicable to sponsored agreements
 - Training costs

Additional details may be found in [2 CFR 200- Cost Principles](https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=ef4273cf2a1ee8736bdc721a81a69f1c&mc=true&n=pt2.1.200&r=PART&ty=HTML#sp2.1.200.e) of the Code of Federal Regulations, (<https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=ef4273cf2a1ee8736bdc721a81a69f1c&mc=true&n=pt2.1.200&r=PART&ty=HTML#sp2.1.200.e>).