

TIGER TIPS
RESOURCES FOR AUBURN RESEARCHERS
COST ALLOWABILITY

Questions often arise in regard to the allowability of costs as charged to contracts and grants. It is our hope that this document provides some guidance as you develop your proposals and manage your awards.

What is an allowable cost?

The term "allowable cost" is generally used in connection with federally-sponsored grants and contracts. In accepting a federally-sponsored grant or contract, Auburn agrees to abide by certain federal rules and regulations regarding the use of the funds. [OMB Circular A-21](#) sets forth the general criteria that educational institutions must follow in determining whether costs are allowable on federally-funded projects. Many federal agencies also publish additional cost guidelines specific to funds awarded by their agencies, and in certain cases, specific grants or contracts may contain additional allowability guidelines for a particular project. It is important to be familiar with these regulatory requirements in order to appropriately administer and manage federally-funded sponsored projects.

In addition to an understanding of OMB Circular A-21, the determination of allowability of costs on sponsored projects often requires a close familiarity with the programmatic and technical aspects of the sponsored project and the approved budget. Please note that there are individuals within the colleges, Sponsored Programs, and Contracts & Grants Accounting that are available to assist principal investigators in determining allowability of costs.

Although generally not as stringent as federal regulations, many non-federal agencies also have cost guidelines for their projects. Principal investigators are responsible for becoming familiar with such requirements and administering their funds in compliance with the sponsor's regulations.

What does OMB Circular A-21 tell me?

Paragraph C.2 of OMB Circular A-21 sets forth four criteria that must be met in order for a cost to be considered allowable on a federally-funded project. The four criteria are as follows:

The cost must be **reasonable**.

The basic guidelines for testing the reasonableness of a cost are the same among all cost principles. Generally, a cost is considered reasonable if it passes the "prudent person" test – i.e. a prudent person would agree that it was reasonable to incur the specific cost in order to carry out the activities of the sponsored project and would also agree that the amount paid for the specific

cost was reasonable. Other major considerations used in determining whether a cost is reasonable are listed in paragraph [C.3 of the Circular](#).

The cost must be **allocable** to the project.

A cost is considered allocable if the goods or services involved are assignable to the sponsored project in accordance with the relative benefits received by the project. For example, if a cost is entirely charged to a particular sponsored project, that particular project must be the only project benefiting from the specific good or service received. If a good or service benefits more than one project, the cost should be distributed to all projects benefiting from the good or service using a reasonable method of estimating the relative benefit received.

The cost must be **treated consistently** with other similar costs in accordance with generally accepted account principles.

A cost charged to a federally-sponsored project should be given treatment consistent with the treatment such a charge would receive if it was being charged to a non-federally funded project. For example, if Auburn's practice was that individuals traveling on University business were not reimbursed for phone calls, then such calls would likewise not be allowable on a sponsored project. Likewise, if telephone equipment is normally treated as an indirect cost by Auburn (i.e. the telephone would be charged to the department and recovered through indirect cost charges), then such a telephone could not be charged to a federally-funded sponsored project as a direct cost.

The cost must conform to any limitations or exclusions stated in generally accepted accounting principles and in the sponsored project agreement.

Costs should also conform to any limitations or exclusions set forth in OMB Circular A-21 and the sponsored project agreement. For example, OMB Circular A-21 specifically states that alcoholic beverages are not allowable costs in federally-funded projects. Likewise, some costs require specific approval from the government sponsor in order to be allowable on a project.

Section D of OMB Circular A-21 defines direct costs and their application to sponsored agreements, and also provides a discussion of how to distinguish direct costs from indirect costs.

Section J of OMB Circular A-21 sets forth general provisions for selected items of cost and describes which costs are unallowable on federally-funded projects. Some of the costs defined as unallowable in this section include, but are not limited to, general advertising and public relations costs, alcoholic beverages, entertainment costs, fines and penalties, and goods or services for personal use. Note that deviations from the provisions set forth in this section generally require specific approval from the federal agency.

Auburn has a [Direct Cost Policy](#) that provides guidance for budgeting and charging direct costs on sponsored projects. Additionally, the University has defined policies for travel and other costs, many of which are set forth in the [Auburn University Policy Database](#). The Office of Sponsored Programs [website](#) also includes guidance documentation that can also serve as a reference.

Some final thoughts about managing federal funds...

Always remember that the government cares how we spend its money, and we should always try to administer the funds as prudently as possible.