STANDARDS FOR FINANCIAL MANAGEMENT: Reasonableness, Allocability and Allowability of costs.

Procedures to determine if a particular cost is allowable and can be charged (directly or indirectly) to a sponsored project. Apply the “prudent person” test and determine the following:

Tests for reasonableness:

1. Is the cost generally accepted a necessary for the operation of the institution or the sponsored project?
2. Are all federal, state and award-specific terms and conditions met?
3. Are the individuals involved acting with prudence under the circumstances?
4. Is the cost consistent with Western Washington University’s policies, procedures and practices as well as that of the sponsoring agency?

Sound judgment in incurring a cost attributable to a federal award must be exercised. The cost must be necessary for the performance of the sponsored project. Certain costs may be allowable on one project, where it is needed for performance, but be unallowable on another project where no similar performance requirement exists.

The relative benefit must be approximated through the use of reasonable methods. Costs must be allocated to the users in proportion to the benefits received.

Allowability of certain selected examples of costs can be found in Section J of Circular A-21. Additionally, certain unallowable activities to a federally sponsored project are also listed. These costs should be borne by separate, non-federally sponsored accounts.

Determining Allocability:

A cost is allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationship. A cost is allocable to a federal project if:

1. Costs can be easily allocated in proportion to the benefits derived by a specific project.
2. The cost is incurred solely to advance the work under the sponsored project.
3. The cost can benefit both the project and other work of the University in proportions that can be approximated through the use of reasonable methods.
4. The cost is consistently treated according to generally accepted accounting principles.
5. The cost is in compliance with the award notice and funding agency requirements.