Definitions.

Reasonable: A cost is considered reasonable if the nature of the goods or services, and the price paid for the goods or services, reflects the action that a prudent person would have taken given the prevailing circumstances at the time the decision to incur the cost was made.

To determine if a cost is reasonable, ask the following questions:

* Is the cost necessary for the performance of the Sponsored Award?
* Does incurring this cost violate the restraints or requirements imposed by federal and state laws and regulations, or Sponsored Award terms and conditions?
* Is the price of the goods or services comparable from multiple vendors/sources that have no vested interest or relationship to the Award or to the person involved in the purchase?
* Have the individuals incurring this cost acted with due prudence (discretion and good sense) in the circumstances? Have they considered their responsibilities to the institution, its employees and students, the federal government, and the public at large?
* Were the actions that were taken with respect to incurring the cost consistent with established institutional policies and practices applicable to Sponsored Awards?

Allocable. A cost is allocable to a particular award if the goods or services involved can be directly charged to the Award based on the benefit provided.

To determine if a cost is allocable, ask the following questions:

* Does it benefit the Award and/or other funding sources?
* Can it be distributed to all benefited funding sources using reasonable methods?
* Does the basis for allocating the cost represent a reasonable estimation of the benefit provided to the Award objectives?

Allowable. A cost is allowable if it is permitted as a cost within general federal regulations, the terms of a specific Award, and/or the institution’s F&A rates.

Costs expressly unallowable or mutually agreed to be unallowable should be identified and excluded from any billing, claim, application, or proposal related to the Sponsored Award.

Inclusion of an unallowable cost in a proposal does not make the cost allowable. Adding a justification to an unallowable cost in a proposal also does not make the cost allowable.

Accounting Treatment of Unallowable Costs. An unallowable cost mistakenly charged to a sponsored award must be transferred to a non-sponsored unrestricted account via a Cost Transfer/Funds Transfer. If the department does not remove a cost identified as unallowable by Sponsored Projects and Accounting Services, Sponsored Projects or Accounting Services will obtain a non-sponsored unrestricted account number from the Principal Investigator’s (PI) Department Chair or Dean. The unallowable cost will then be transferred. The treatment of unallowable costs language will be included in PI training materials.