

# Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards – Cost Considerations

1. Ref.: [2 CFR Part 200.402-405](#); [200.407](#)

2. Effective Date: July 1, 2015

3. Originating Office/Agency: Office of Management and Budget

4. Key Words: Composition of costs; allowability; reasonable costs; allocable costs

## Scope

This document provides guidance on the basic considerations regarding costs charged to a Federal award. The total cost of a Federal award is the sum of allowable direct and allocable indirect costs. Federal awards that include matching funds or cost sharing or program income are subject to the same basic considerations and cost principles afforded the Federal share of a grant or contract.

Part of the university's post award administration responsibilities for grants and contracts includes a determination as to the allowability, reasonableness, and allocability of costs charged to each Federal program. The formal approval of Federal grant and contract expenditures by the Office of Grant and Research Development provides verification that the basic cost considerations have been met.

## **[2 CFR Part 200.403](#) – Allowability of Costs**

Costs must meet the following criteria in order to be allowable under a Federal award:

- Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles;
- Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items;
- Be consistent with policies and procedures that apply uniformly to both Federally-financed and other activities of the non-Federal entity;
- Be afforded consistent treatment (a cost cannot be assigned as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the award as an indirect cost);
- Be determined in accordance with generally accepted accounting principles;
- Not be included as a cost used to meet cost sharing or matching requirements of any other Federal award in either the current or a prior period; and
- Be adequately documented.

## **[2 CFR Part 200.404](#) – Reasonableness of Costs**

A cost is considered reasonable if, in its nature and 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 cost. In determining the reasonableness of cost, consideration is given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the university or the proper and efficient performance of the Federal award;
- The restraints or requirements imposed by such factors as sound business practices, arm's length bargaining, other laws and regulations, and terms and conditions of the Federal award;
- Market prices for comparable goods and services for the geographic area;
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the university, its employees and students, to the public at large, and to the Federal government; and
- Whether the university significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

### **2 CFR Part 200.405 – Allocability of Costs**

A cost is allocable to a Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award for cost objectives in accordance with relative benefits received. This standard is met if costs:

- Are incurred specifically for the Federal award;
- Benefit both the Federal award and other work of the university and can be distributed in proportions that may be approximated using reasonable methods; and
- Are necessary to the overall operation of the non-Federal entity and are assignable in part to the Federal award.

### **2 CFR Part 200.407 – Prior Written Approval (to assure reasonableness and allocability of costs)**

Under certain circumstances, the reasonableness and allocability of particular items of costs may be difficult to determine. In order to avoid a disallowance of costs due to unreasonableness or nonallocability, EWU may seek prior written approval from the Federal funding agency in advance of incurring special or unusual costs.