

**Allowable, Allocable, and Reasonable Costs**  
**Guidelines for Charging Costs to State and Federal Projects**

**QUICK DECISION GUIDE**

**Is the charge allowable? For a cost to be allowable, it must conform to:**

- Terms and conditions of the agreement;
- OMB Circular A-21 (federal and state awards); and
- SFA policy.

**Is the charge allocable to the project? When allocating charges between projects, ask:**

- Are the expenses allocated on a consistent basis?
- Is the method of allocating expenses between projects sound?
- Is the expense allocation clearly documented?

**Is the charge reasonable? To determine if a cost is reasonable, ask:**

- Is it necessary for performance of the award?
- Does it advance the scope of work?
- Is it consistent with established institutional policies and practices?
- Would it withstand external review by a prudent individual?

**Examples of direct-charging practices that are not acceptable to federal or state agencies:**

- Rotating charges among sponsored projects by month without establishing that the rotation schedule reflects the relative benefit to each grant.
- Assigning charges to the sponsored project with the largest remaining balance.
- Charging an amount based on what is in the approved project budget instead of charging an amount based on actual costs.
- Assigning charges to sponsored projects before the cost is incurred.
- Identifying a cost as something other than what it actually is.
- Charging expenses exclusively to sponsored projects when the expense also has supported non-sponsored project activities.
- Assigning charges that are part of the normal administrative support for contracts and grants and included in indirect costs (e.g., proposal preparation, accounting, payroll).
- Charging costs to ending sponsored projects to expend remaining funds, without regard to the appropriateness of the costs.

These practices are not acceptable because they do not meet A-21's standard for a "high degree of accuracy" in the assignment of costs to contracts and grants.

**Applicable Federal and State Regulations**

- Federal OMB Circular A-21 (Cost Principles) covers costs applicable to research and development, training, and other sponsored work performed by colleges and universities under grants, contracts, and other agreements with the Federal Government. These agreements are referred to as sponsored agreements.
- A-21 also covers work performed under subgrants, subcontracts, and other awards made under sponsored agreements.
- By state regulation (Uniform Grant Management Standards, Governor's Office of Budget and Planning), A-21 also covers sponsored agreements funded by the state of Texas.