

North Dakota State University

Policy Manual

SECTION 804 ALLOWABILITY OF COSTS

SOURCE: NDSU President

1. Before a cost may be charged directly to a sponsored agreement, the cost must meet all of the allowability criteria stated below. The factors affecting allowability of costs are:
 - a) they must be reasonable;
 - b) they must be allocable to sponsored agreements under the principles and method provided below;
 - c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate under the circumstances;
 - d) they must conform to any special limitations or exclusions as set forth in the sponsored agreement.
2. **REASONABLE COSTS.** A cost is considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made. Major considerations involved in the determination of the reasonableness of a cost are:
 - a) whether or not the cost is of a type generally recognized as necessary for the operation of the institution or the performance of the sponsored agreement;
 - b) the restraint or requirements imposed by such factors as arm's-length bargaining, Federal and State laws and regulations, and sponsored agreement terms and conditions;
 - c) whether or not the individuals concerned acted with due prudence in the circumstances, considering their responsibilities to the institution, its employees, its students, the Government, and the public at large; and
 - d) the extent to which the actions taken with respect to the incurrence of the cost are consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.
3. **ALLOCABLE COSTS.** A cost is allocable to a particular sponsored agreement if the goods or services involved are chargeable or assignable to such sponsored agreement in accordance with relative benefits received or other equitable relationship. A cost is allocable to a sponsored agreement if:
 - a) it is incurred solely to advance the work under the sponsored agreement;
 - b) it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through use of reasonable methods; or
 - c) it is necessary to the overall operation of the institution and, in light of the principles above, is deemed assignable in part to sponsored projects.

Any costs allocable to a particular sponsored agreement under the standards provided above may not be shifted to other sponsored agreements in order to meet deficiencies caused by overdrafts or other fund considerations, to avoid restrictions imposed by law or by terms of the sponsored agreement, or for other reasons of convenience.

4. The Office of Grant and Contract Accounting reviews expenses charged to sponsored agreements for allowability under the guidelines stated above or for need of further documentation to justify the charge against a specific sponsored agreement.

HISTORY:

New	July 1990
Amended	April 1992
Amended	August 2007
Amended	October 10, 2014