The University will only directly pay or reimburse for properly substantiated business expenses. In order for those costs to qualify as a business expense they must 1) serve a legitimate business purpose, 2) must include adequate and appropriate explanations and documentation, and 3) advances in excess of substantiated expense must be returned within a reasonable period of time. For grants/sponsored accounts the expense must be related to the accounts function and must honor the terms and conditions of the funding source.

**Allowable costs:**  
For an allowable charge to be posted to a grant the cost (expenditure) must meet the following standards:

- Must be incurred during the award period
- Must be reasonable
- Must be allocable
- Must be treated consistently

**Must be incurred during award period:**  
Costs posted to grants must have occurred during the award period. The cost must be a business expense that is needed to complete the project from the grant.

**Must be reasonable:**  
A cost is considered reasonable if a ‘prudent person’ would have purchased this item for this price. Some considerations that should be done before purchasing the item is: 1) was this cost necessary; 2) did cost meet certain factors such as arm’s-length bargaining, did it comply with federal and state laws and regulations and did it meet the sponsors agreement terms and conditions; 3) did the individual exercise prudence under the circumstance; 4) did the individual act in accordance with institutional policies and practices and sponsored agreements.

**Must be allocable:**  
A cost for goods or services is allocable if it can be assigned to the activity on some reasonable basis. A cost is allocable to a sponsored agreement if 1) the cost is incurred solely to advance the work or 2) the cost benefits both the sponsored agreement and other work of the institution, in proportions that can be reasonably estimated; 3) under indirect cost recovery a cost is assignable in part to sponsored projects if it is necessary to the overall operation of the institution.

**Must be treated consistently:**  
Costs incurred for the same purpose in like circumstances must be treated the same. This is important when classifying expenses as either direct or indirect costs.

**Important Reminder:**  
In accordance with requirements of OMB Circular A-21, costs must be allowable, allocable and reasonable/necessary. Costs cannot be shifted to other sponsored agreements in order to meet deficiencies caused by overruns. Additionally, costs cannot be transferred to an account with an unexpended balance during the last months of a project simply to deplete the balance of funds.
References:  
OMB Circular A-21  
OMB Circular A-133  
Pacific University Policies and Procedures  
Nongovernmental Grant Documentation  
ARRA FederalReporting.gov Guide