
Federal Cost Principles and Documentation

Key Roles

- Grant Accounting Office (GAO)
- Principal Investigator (PI)
- Department Administrator

What are the Federal Cost Principles

- Federal cost principles are government-wide rules that define how to determine allowable costs on federal awards and support consistent treatment across recipients.
- Costs must be:
 - Allowable
 - Allocable
 - Reasonable
 - Treated Consistently

Allowable

A cost is allowable when it:

- Is necessary and reasonable for the performance of the federal award and allocable to that award.
- Conforms to 2 CFR 200 Subpart E, the specific award terms, and institutional policy, and is not expressly unallowable.
- Is treated consistently in like circumstances and is adequately documented.

Allocable

A cost is allocable when it:

- Provides a direct benefit to the specific project or other projects in proportion to the benefit received.
- Is incurred solely to advance that project or benefits the project and other activities in a reasonable and documented proportion.
- Can be distributed to all benefitting funding sources using a documented reasonable, supportable allocation methodology.

Reasonable (including “Prudent Person”)

A cost is reasonable when it:

- Reflects the action a prudent person would take under the prevailing circumstances at the time the cost was incurred (nature of the good/service and price).
- Is necessary for the award’s objectives, consistent with institutional practices, and able to withstand public and audit scrutiny.

Consistently Treated

All costs incurred for the same purpose and in like circumstances must be treated uniformly.

Examples of Allowable Costs

- Salaries and wages for project personnel and are documented via effort reporting and payroll records.
- Fringe benefits associated with allowable salaries.
- Project-specific supplies and materials (e.g., lab reagents, survey instruments).
- Project travel that is necessary to achieve award objectives (e.g., data collection, collaborator meetings, presenting project results when allowed by the sponsor).
- Participant support costs, when explicitly budgeted and approved in the NOA
- Equipment that meets the sponsor's definition and is approved/justified as necessary for the project's performance.

Examples of Unallowable Costs

- Alcoholic beverages, whether purchased alone or as part of a meal with otherwise allowable business purposes.
- Travel related to proposal development.
- Entertainment costs such as tickets to sporting events, shows, or social outings, and related meals or decorations.
- Lobbying and fundraising expenses, including staff time and materials used to influence legislation or raise donations.
- Fines, penalties, and late fees resulting from violations or noncompliance (e.g., parking tickets, late payment charges).
- Goods or services for personal use.

Why Documentation is Important?

Good documentation practices focus on showing that each cost meets the federal cost standards (allowable, allocable, reasonable, and consistent) and that unallowable costs are clearly segregated.

Documentation Should

- Tie every charge to: business purpose, benefiting project, and applicable award terms (e.g., cite NOA section, budget line, or approval email in the notes or supporting file).
- Source documents: invoices, receipts, contracts/POs, time and effort records, travel authorizations, agendas, sign-in sheets, and proof of receipt of goods/services.
- Ensure dates and amounts reconcile to the general ledger, fall within the period of performance, and align with the approved budget categories.

What Auditors Expect to See

- A clear audit trail from each grant charge back to:
 - Source document.
 - Business purpose narrative.
 - Evidence that the cost meets the allowability criteria and was properly approved.
- Written institutional policies on allowability and unallowable costs, plus proof they are applied in practice through coding structures, workflows, and training materials.

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