

# Accounting Treatment for Unallowable Costs

All direct costs charged to sponsored projects must be allowable, allocable, necessary and reasonable to carry out the objectives of the sponsored project as defined in Uniform Guidance (2 CFR 200). To be consistent in managing direct costs, the University extends these requirements to both federal and nonfederal sponsors.

In addition all direct costs must be:

- separately budgeted and accounted for subject to terms of the sponsoring agency
- charged at their actual prices
- travel costs must comply with the most restrictive travel policy of either the University or the Sponsor
- all administrative type costs are explicitly included in the budget justification or have received prior approval of the sponsor
- direct costs charged to sponsored projects that result in a cost overrun or deficit spending must be moved to a non-sponsored account
- internal controls are utilized to identify that the expense is charged to the correct sponsored project

Unacceptable direct charging practices include:

- purchasing items simply to use an unobligated balance
- rotating costs among projects
- charging the budget amount (in contrast to charging an amount based on actual costs/usage)
- assigning charges to an award before the cost is incurred
- charging an expense exclusively to an award when the expense has supported other activities or awards

Principal Investigators (PIs) are responsible for ensuring that all direct costs charged to their sponsored projects comply with this policy. Business Centers and Departmental Approvers also have responsibilities for reviewing and approving transactions on sponsored projects to ensure that they comply with this policy.

## **Costs that are described as unallowable costs by OMB Uniform Guidance can be found in SAPPHIRE:**

Administrative and support costs such as administrative and clerical salaries, office supplies, postage, local telephone, and memberships are usually included in F & A cost. These costs cannot be charged directly to the grant unless they are specifically substantiated as direct costs and approved by the Federal agency.

- Advertising and public relations costs
- Airfare cost in excess of lowest available commercial discount airfare
- Alcoholic beverages
- Alumni activities
- Bad debts
- Commencement and convocation costs
- Contingency provisions
- Defense and prosecution of appeals, claims, legal proceedings
- Donations and contributions
- Entertainment costs
- Fines or penalties
- Goods and services for personal use
- Housing and personal living expenses
- Insurance against defects
- Interest, fund raising, and investment management costs
- Lobbying
- Losses on other sponsored agreements
- Membership costs in civic, community, social, country club, or dining club organizations
- Preaward costs (unless approved by awarding agency)
- Proposal preparation costs
- Excessive or unreasonable recruitment costs
- Selling and marketing
- Student activity costs (unless approved by awarding agency)
- Tuition for Graduate Assistants that are not enrolled in a degree program related to the project.
- Any other cost restrictions imposed by individual awarding agency or restrictions outlined within the award instrument.

### **Accounting Treatment of Unallowable Costs-Indirect Cost Pools**

- Costs that are not reimbursable because of being specifically defined as unallowable by OMB Uniform Guidance (e.g., bad debts, fines and penalties, promotional publishing, etc.) are identified by specific account codes in the formal financial records. Any costs posted to these specific accounts are excluded from all indirect cost pools and are not allocated to any final cost objective when determining indirect cost rates.
- Costs that are incurred by an activity defined as unallowable by OMB Uniform Guidance (e.g., Public Relations Office, Alumni Association, etc.) are posted to specific cost-centers in the formal financial records. All costs accumulated on these cost-centers are assigned to the Other Institutional Activities cost pool and receive a full allocation of indirect costs. Any space-related costs of these activities are allocated to Other Institutional Activities.

- Other costs defined as unallowable by OMB Uniform Guidance that are not posted to specific accounts or cost-centers (e.g., institutional memberships and other public relations/fund raising costs), are identified by a transaction review process conducted during the determination of indirect cost rates and are kept in separately maintained work papers. These costs are assigned to the Other Institutional Activities cost pool and receive a full allocation of indirect costs.
- Any mutually agreeable unallowable costs are either specifically identified and recorded separately in the formal financial records or identified in separately maintained accounting records or work papers. Any salary and wage costs paid from institutional funds for the benefit of a sponsored agreement are identified in separately maintained work papers. These costs are assigned to the same final cost objective or allocation base as the related sponsored agreement.