Unallowable Expenses

Purpose of Guidelines

The purpose of these guidelines is to provide information about the identifying and allocating unallowable costs as defined in Uniform Guidance 2 CFR 200.

Background

Uniform Guidance 2 CFR 200 establishes principles for determining costs applicable to grants, contracts and other agreements with Institutions of Higher Education (IHE). In order for the University of Arkansas at Pine Bluff to meet federal requirements it is necessary to identify and correctly allocate unallowable expenses as defined in Uniform Guidance 2 CFR 200. All departmental expenditures, both direct and indirect costs, are a part of the indirect cost rate calculations, therefore it is important that all department staff and PIs, as well as the offices of Finance and Administration and the Office of Research and Sponsored Program, understand and consistently follow the stated guidelines.

According to Uniform Guidance 2 CFR 200, (200.403) “Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

1. Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
2. Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amounts of costs
3. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
4. Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
5. Be determined in accordance with generally accepted accounting principles (GAAP)
6. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or prior period.
7. Be adequately documented

In other words, we can only record expenses if they are:

* Reasonable – A prudent person would have purchased the item and paid that price.
* Allocable – Expenses are at least partially applicable to a sponsored agreement.
* Consistently Treated – Expenses for similar purposes must be treated the same way (throughout the university) under like circumstances.
* Allowable – The expense must be allowable or not specifically excluded as specified by government regulations (examples of specifically excluded costs are discussed later) or by the contract/grant/cooperative agreement requirements.

If an expense cannot meet the above criteria, it is NOT eligible for inclusion as an allowable expense.

The federal government will not reimburse these costs, however, they may be entirely appropriate and permissible activities. Guidance is given in this document as to classification of costs if unallowable. If there are any questions, please call Grant Accounting at 575-8645 for assistance.

Definitions

Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards Code of Federal Regulations Title 2: Grants and Agreements Part 200 (2 CFR 200).

**Allowable Costs (200.403)**

* An expense which can be placed in the indirect cost rate proposal based on the following:

1. Reasonable – A prudent person would have purchased the item and paid that price.  
2. Allocable – Expenses are at least partially applicable to a sponsored agreement. This is true for direct and indirect costs.  
3. Consistently Treated – Expenses for similar purposes must be treated the same way (throughout the university) under like circumstances.  
4. Allowable – The expense must be allowable or not specifically excluded as specified by government regulations.

**Direct Costs (200.413)**

* Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs.

**Indirect (facilities & administrative (F&A)) costs (200.56)**

* Indirect (F&A) costs means those costs incurred for the common or joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved.

**PI**

* Principal Investigator on a grant, contract or cooperative agreement. This person bears the main responsibility for costs that are charged to that agreement.

Guideline Issues

Unallowable costs fall into two categories, those costs unallowable in and of themselves such as entertainment or lobbying, and costs related to activities that are unallowable such as alumni activity or public relations. It is important that all unallowable costs be recorded in a manner that makes them identifiable. In order for that to occur, there needs to be campus wide awareness and training at the departmental level where costs are incurred and first recorded.

Responsibility for compliance

Responsibility for following these guidelines lies primarily with Principle Investigators, Department Chairs and fiscal personnel with the general guidance and oversight of the colleges, schools and divisions. Grant Accounting and ORSP is responsible for guidance and training and for insuring compliance through periodic internal and external audits.

Department Responsibilities

The first and foremost responsibility for identifying and segregating unallowable costs is at the department level when the costs are incurred and recorded. Any questions regarding a particular cost can be addressed to the Grant Accounting Office which is the central unit designated to carry out these oversight responsibilities.

Treatment of Unallowable Cost

Any unallowable cost noted on a grant will be charged against the department’s private accounts and/or operating budget. The costs that are specifically designated as unallowable costs by OMB Uniform Guidance include:

* advertising expenses except for employee and subject recruitment
* alcoholic beverages
* alumni activities
* bad debts
* commencement and convocation costs
* contingency provision costs
* certain defense and prosecution of criminal and civil proceedings
* entertainment costs
* certain fines and penalties
* goods and services for personal use
* housing and personal living expenses for officers of the institution
* insurance against defective work
* interest, fund raising, and investment costs (excluding third party interest expenses)
* lobbying costs
* malpractice insurance that does not involve human subjects
* membership in any civic or community organization, country club, social or dining club
* public relations costs
* selling and marketing costs
* student activity costs
* travel/subsistence costs of trustees