

Brigham Young University

Unallowable Costs – Guidelines

April 1, 2014

Definition

Unallowable costs, for the purpose of these guidelines, are costs that cannot be included in the direct costs of sponsored research awards or in the university's indirect cost rate according to OMB Circular A-21. These costs are not necessarily what the university considers unallowable.

According to OMB Circular A-21 the tests of allowability of costs are:

1. They must be reasonable
2. They must be allocable to sponsored agreements under the principles and methods provided in A-21
3. They must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances
4. They must conform to any limitations or exclusions set forth in A-21 or in the sponsored agreement as to types or amounts of cost items

Costs are considered to be reasonable if the goods or services acquired and the dollar amount of the cost:

- Reflects a prudent and responsible action
- Are necessary for the performance of the sponsored project
- Are in accordance with all applicable external regulations and terms, and
- Are consistent with university policies

Costs are allocable when the cost:

- Is incurred solely to advance the work under the sponsored agreement
- Benefits the project and other work in proportions that can be readily estimated
- Is necessary to the overall operation of the institution (Indirect Cost)

Allowability/Unallowability of Selected Cost Items

Section J of Circular A-21 defines principles to be applied in determining the allowability/unallowability of certain types of costs. The following items are common costs listed as unallowable per federal regulations. This is a quick reference only.

Alumni Activities

Advertising and public relations - to promote the institution

Contingency reserves

Donations and contributions

Entertainment costs

First Class and other non-coach travel

Fund raising costs

Goods and services for personal use

Lobbying costs

Losses on other sponsored agreements

Membership in civil/community/social organizations

Personal living expenses

Selling and marketing costs

Student activity costs

Other costs may be unallowable depending on the circumstances. Refer to Section J of Circular A-21 for full detailed information or contact Grants & Contracts Accounting for more information.

Responsibility for compliance

It is expected that the principal investigator and department approvers take primary responsibility for following these guidelines. University departments must provide sufficient detailed information describing the item purchased and the purpose to facilitate the review process.

Grants & Contracts Accounting is responsible for guidance and training to insure compliance. Departments should identify and segregate unallowable costs at the department level when the costs are incurred and recorded. All unallowable costs should be identified with the correct account code or organization (cost center).

Indirect Cost Proposal

In preparing the indirect cost proposal, most unallowable costs are identified in the University accounting records through designation of organization, program and account codes. These costs are excluded from direct and indirect cost pools allocated to sponsored agreements. Some costs are recorded in accounts that are unallowable in their entirety or in part.

Some cost centers and accounts are subject to additional review and unallowable costs are removed through specific identification. The accounting records are reviewed during the indirect cost proposal preparation to ensure that all unallowable costs have been excluded from the indirect cost pools.