

UNALLOWABLE COST INFORMATION

OMB Circular A-21 Guidance

Circular A-21 defines various activities and objects as either allowable or unallowable for reimbursement by the government. It describes the allowability of costs as follows: “(a) they must be reasonable; (b) they must be allocable to sponsored agreements under the principles and methods defined in A-21; (c) they must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances; and (d) they must conform to any limitations or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.”

Costs defined as unallowable under A-21 are not necessarily expenses that are prohibited by F&M—some may be related to essential institutional functions—however, by indentifying them as unallowable, the government has stated that federal funds may not be used to pay for these expenses. They may not be charged to the government as either direct or indirect costs, nor may they be counted as cost sharing on federally sponsored projects.

Stewardship of Taxpayer Dollars

In general, F&M’s acceptance of gifts and sponsored projects brings with it the responsibility to be a prudent steward of the donor's or sponsor's funds. By accepting government-sponsored projects, we also accept responsibility for appropriate stewardship of taxpayer dollars. Failure to comply with government rules and regulations regarding the allowability of costs can result in serious consequences for the college, not only financially but also in terms of damaging F&M’s reputation.

Below is a list of the main unallowable costs taken from part J of Circular A-21. For more information, refer to the full text of the Circular, available on-line, or consult the Provost Office or Business Office.

http://www.whitehouse.gov/omb/circulars_a021_2004/-j

Common Unallowable Costs

- Advertising (J.1)
- Alcoholic beverages (J.3)
- Alumni activities (J.4)
- Bad debt expense (J.6)
- Commencement and convocation costs (J.8)
- Contingency provisions (J.11)
- Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements (J.13)
- Donations or contributions rendered (J.15)
- Entertainment (J.17)
- Fines and penalties (J.19)
- Fund raising (J.20)
- Goods and services for personal use (J.22), including housing and personal living expenses (J.23)
- Lobbying (J.28)

- Losses on other sponsored projects or contracts (J.29)
- Memberships, subscriptions and professional activity costs (J.33)
- Student activity costs (J.48)
- Travel costs (J.53)

****Remember this is a quick reference guide. There may well be reasonable exceptions to some of the unallowable costs listed here.****

Examples of Unallowable vs. Allowable Expenses

A frequent source of confusion about the allowability of expenses stems from a failure to recognize the differences between business function expenses, which are allowable and entertainment expenses, which are not (unallowable). The examples below should help to clarify this important distinction.

Unallowable Entertainment Expenses

- (1) An invited speaker is in town to present a seminar. While here, you take him to dinner and a sporting event to show your appreciation.
- (2) It is the end of the fiscal year and you have survived another one. You decide to have a year-end party for your department to lift morale. Catering delivers a luncheon in the conference room and everyone in the department gets together to socialize and unwind.

The above costs are for “amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities)” and therefore are examples of unallowable entertainment costs.

Allowable Business Function Expenses

- (1) An invited speaker is on campus to present a research seminar from 12:00-1:00pm. You have a luncheon, following the seminar, so that attendees can have the opportunity to meet and talk with the lecturer more closely about her research.
- (2) You are recruiting a new post-doc, decide to perform the interview over lunch, and you pick up the tab.

The costs of both luncheons are allowable expenses and should be classified as a business function. They are considered an extension of business and are therefore allowable (except for any alcohol that may be purchased).