**PURPOSE:**

The purpose of these guidelines is to establish procedures for the accounting treatment to remove unallowable costs that may have been charged to a grant. These procedures support the principles outlined in OMB 2 CFR-200 and subsequent updates.

**SCOPE:**

These procedures apply to all employees, contractors, and subrecipients who are involved in the administration and management of externally funded grants.

**DEFINITIONS:**

1. Unallowable Costs

1.1 The following costs are generally considered unallowable for externally funded grants:

a. Entertainment expenses, including tickets to shows, sporting events, or social activities.  
b. Alcoholic beverages.   
c. Lobbying and political activities.   
d. Fines, penalties, and legal settlements.   
e. Fundraising or development activities.   
f. Costs for personal use or personal expenses.   
g. Costs incurred outside the grant period or before the grant award date.  
h. Costs not directly related to the scope and objectives of the grant.  
i. Excessive or unreasonable costs.

Additional costs may be unallowable based on the sponsor award agreement or agency guidelines.

1. OMB 2 CFR-200 Cost Principles
   1. Reasonable: A cost may be considered reasonable if the nature of the goods or services acquired or applied, and the amount involved therefore, reflect the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.
   2. Allowable: A cost must be allowed by the general cost principles in Uniform Guidance, the award agreement, and agency guidelines.
   3. Allocable: A cost is allocable to a particular cost objective (i.e., a specific function, project, sponsored agreement, department, or the like) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship.
   4. Consistent: A cost must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances.

**ACCOUNTING TREATMENT OF UNALLOWABLE COSTS:**

1. Unallowable costs, as defined in these procedures, shall not be charged to externally funded grants or included in the calculation of the grant's indirect cost rate.
2. If an unallowable cost has been mistakenly charged to a grant, the department will remove the cost from the grant as soon as possible once the charge is identified.
3. If the department does not move the unallowable costs off the grant on a timely basis, Grant and Contract Accounting (GCA) will transfer the unallowable cost via journal entry to PI’s departmental account and the department will be responsible for funding the expense.

**QUESTIONS:**

Please contact your representative in GCA regarding questions about allowability of expenses.