



## Accounting and Administrative Manual

### Section 100: Accounting and Finance

#### Accounting for Unallowable Costs

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#### Purpose and Scope:

To provide guidance for identifying and accounting for unallowable expenses or activities to ensure compliance with Federal requirements for treatment of specific costs.

Unallowable costs are those that are deemed unallowable by Federal regulations. As a result, the university must ensure that these costs are not recovered on grants or contracts as direct charges or in any other manner, such as through the Facilities and Administrative (F&A) cost rates. There are four broad categories: 1) unallowable activities; 2) mutually agreed upon unallowable costs; 3) explicitly unallowable costs; and 4) cost disallowances.

#### General:

All university expenditures must comply with Board of Regents' Policy and University Regulation in addition to state regulations. The university's procurement and cost accounting practices must also enable the university to comply with Federal requirements under OMB 2 CFR § 200 (Code of Federal Regulations). In addition, sponsored project expenditures must be allowable under the specific terms and conditions of the sponsored project.

The university's acceptance of funding from external sources brings with it the responsibility to be a prudent steward of the external funds. By accepting government sponsored projects, the university also accepts the responsibility for stewardship of Federal taxpayer's dollars. These responsibilities lead to a high level of audit scrutiny. Any financial transaction incurred by the university may be subject to review by both internal and external audit agencies including:

- University of Alaska Audit and Consulting Services Department
- External independent auditors
- Defense Contract Audit Agency (DCAA) as the auditing arm of the university's cognizant government agency, Office of Naval Research
- Sponsored project specific audit by sponsor



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#### Definitions:

**Allocable** – Per 2 CFR §200.405, a cost is considered to be allocable if the goods or services involved provide a benefit to the sponsored project. Factors to consider if a cost is allocable are: 1) if the cost is incurred solely to advance the work under the sponsored project; 2) if it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through reasonable methods; 3) if it is necessary to the overall operation of the institution and is deemed to be assignable in part to sponsored projects; 4) if equipment or capital assets are authorized, they are assignable to the sponsored agreement regardless of the use that may subsequently be made of the equipment or other capital items involved (see 2 CFR §200.313 for more information).

**Consistent treatment of costs** – A cost is treated consistently when the costs are estimated in the proposal development stage using the same method as they are accumulated and reported on during the post-award phase of the sponsored agreement. In addition, the university must be consistent in the treatment of direct type expenses and Facilities & Administrative (F&A) type expenses.

**Cost disallowance** – Costs, incurred for grants or contracts, which are disallowed pursuant to a written decision by the sponsor or the university's Federal audit agency. In some cases, university management can deem a cost as disallowed. This includes pre-award costs, costs that fall outside the award period, and costs of supporting personnel and other expenditures if ultimately rejected by the sponsor. These expenses charged to a sponsored project may be removed from the sponsored project in order to ensure that the sponsor is not billed for these expenses through the use of account code 8651 "Restricted Fund Disallowed Costs" or by moving the specific expense out of the sponsored project fund. See Procedure A-05. Unallowed costs are the responsibility of the principal investigator's department, unless the facts and circumstances warrant a more appropriate source.

**Direct costs** – Direct costs are those that can be assigned with relative ease and a high degree of accuracy to a particular sponsored project, instructional activity or another institutional activity.

**Directly associated costs** – any cost which is generated solely as a result of the incurrence of another cost, and which would not have been incurred had the other cost not been incurred.

**Explicitly unallowable costs** – Costs that are specifically identified as unallowable under 2 CFR § 200 unless specified as allowable under the terms and conditions of the award. They



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include individual items of expense such as alcoholic beverages, entertainment costs, and dues for commercial, civic, or social clubs.

Facilities and administrative costs – F&A type costs are those that are incurred for common or joint objectives or activities. These costs typically cannot be clearly identified with a particular sponsored project, instructional activity or any other institutional activity. The university is not permitted to move between direct and F&A cost pools without cognizant agency approval. Facilities costs include depreciation on buildings, equipment and capital improvements, interest on debt associated with certain assets, operations and maintenance costs, and library expenses. Administration costs include general administration and general expenses, departmental administration, sponsored projects administration, and student administration and services.

Indirect costs – Indirect costs are synonymous with F&A costs.

Mutually agreed upon unallowable costs – Costs that are agreed upon unallowable under the terms of a grant, contract, or cooperative agreement, but which are allowable under normal circumstances. Assuming that the amount was not used as cost sharing, the costs are considered unallowable and must be accounted for as such in unallowable account codes or organization codes with unallowable type default program codes.

Reasonable –Per 2 CFR §200.404, a cost is considered to be reasonable if the nature and amount of the goods or services acquired are an amount that a prudent person would have paid at the point in time that the transaction occurred. Factors to consider when evaluating whether a cost is reasonable are: 1) whether the cost would generally be recognized as necessary for the operation of the institution or the performance of a sponsored agreement; 2) the restraints or requirements imposed by such factors as sound business practice; arms length bargaining, Federal, state, local tribal and other laws and regulations, and sponsored agreement terms and conditions; 3) market prices for comparable goods or services for the geographic area; 4) whether pertinent individuals acted with prudence under the circumstances, considering their responsibilities to the institution, its employees, its students, the Federal government, and the public at large; and 5) whether the actions deviate from the university's policies and practices, which may unjustifiably increase the Federal award's cost.

Unallowable activities – 2 CFR § 200 has identified four specific activities whose costs have been determined to be entirely unallowable by the Federal government. The activities are: 1) advertising/public relations designed solely to promote the university's offices,



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colleges, or units and their programs and services; 2) alumni activity; 3) fund raising and cash management; and 4) lobbying, including costs of a legislative liaison.

#### Federal Requirements:

The university must comply with the principles for expenditure of Federal funds that are set forth by the Federal government in 2 CFR § 200 Subpart E – Cost Principles, “Cost Principles for Educational Institutions”. 2 CFR §200.403 states that allowable costs must (a) be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles; (b) conform to any limitations or exclusion set forth in these principles or in the Federal award as to types or amount of cost items; (c) be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity; (d) 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; (e) be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for this part; (f) 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 a prior period (see also §200.306 Cost sharing or matching paragraph (b)); (g) be adequately documented. See also §200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.

Unallowable costs, for the purpose of this procedure, are defined as costs that cannot be charged as direct costs to a sponsored agreement or included in the university’s F&A cost rate according to 2 CFR § 200. These costs may be allowable costs under Board of Regents’ Policy or University Regulation. The university is not prohibited from incurring unallowable costs, but cannot recover these costs from Federally sponsored projects directly or indirectly. Unallowable expenses or activities along with any directly associated costs must be appropriately identified on all documentation and in the accounting system.

2 CFR § 200 Subpart E-Cost Principles contains general provisions for selected items of cost. The principles included in this section enable the university to establish the allowability of certain items of cost, regardless of whether the cost is an F&A or direct cost. This list is not all inclusive. If a particular type of expense or activity is not included, the determination of allowability is based on treatment of similar or related expenses or activities. The information contained in this procedure is not a substitute for the information provided in 2 CFR § 200 and the specific language in CFR should be reviewed



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in conjunction with this procedure when trying to determine if a particular cost is unallowable. Provisions of a particular sponsored agreement govern when there is a discrepancy in the treatment of a particular cost.

Costs that are identified as unallowable must be excluded from proposals for funding and billings to agencies for costs incurred. If the sponsor has already reimbursed the cost, it must be refunded to the sponsor, including interest in accordance with Federal agency regulations. If the sponsor is a non-Federal entity, the interest rule may not apply.

#### Accounting:

All university expenditures must be analyzed and grouped into pools to calculate the university's facilities and administrative costs through the use of fund codes, account codes, organization codes, and program codes associated with each transaction.

Proper identification of unallowable activities and expenses ensures that these costs are not charged directly to Federally sponsored agreements or indirectly through appropriate treatment in the computation of F&A cost rates.

The university identifies unallowable costs and activities either by using specific account codes, organization codes with unallowable type program codes, or thru information provided by specific departments. Unallowable type program codes include program codes that end with a 'Z' including AZ, GZ, IZ, OZ, PZ, RZ, SZ, and UZ. Contact the appropriate university business office or financial services department to establish an organization code with an unallowable type program code, if needed.

It is the responsibility of the principal investigator in conjunction with the department support staff to ensure that proposals do not include unallowable costs or activities unless necessary for the project and that expenditures are captured in the correct account code or organization code to enable proper identification of unallowable costs and activities. Review of transactions for unallowable costs or activities are the responsibility of university personnel including department executive or fiscal officer, purchasing staff, accounts payable staff, financial services or business office staff, and grants and contracts personnel to ensure that transactions have been accounted for properly.



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#### Specific Items of Cost:

In accordance with 2 CFR § 200, the following costs or activities require special treatment by the university. In case of a discrepancy between the provisions of a specific sponsored agreement and the provisions in 2 CFR Subpart E-Cost Principles, the agreement should govern. The costs must be provided for in the agreement and approved in writing by the Federally sponsored agency. Attachment #1 may be used as a quick reference list that contains the most common unallowable costs along with basic explanations.

**Additional faculty compensation** a direct charge for work on a Federally sponsored project by an academic employee is unallowable, except in unusual cases where consultation is across departmental lines or involves a separate or remote operation, and the work performed by the consultant is in addition to a faculty member's regular departmental workload. Any charges for such work representing extra compensation above the base salary are allowable provided that such consulting arrangements are specifically approved by the university, provided for in the agreement or approved in writing by the Federally awarding agency. See 2 CFR §200.430(h). Faculty will be required to verify and sign Effort Certifications for any time charged to a sponsored award. For additional information, please see section D-04 Effort Certification Requirement in the Accounting and Administrative Manual.

**Advertising** is unallowable except for recruiting of personnel, procurement of goods and services, disposition of surplus/scrap materials purchased with Federal funds unless the university is reimbursed for disposal costs, and program outreach and other specific purposes necessary to meet the requirements of the Federal award. Unallowable advertising should be recorded in account code 3501 "Other Advertising/Publicity" or be recorded in an organization code with a 'Z' type unallowable default program code. See 2 CFR §200.421.

**Alcoholic beverage** costs are unallowable for Federally sponsored programs under 2 CFR §200.423. However, for university purposes alcoholic beverage costs are not reimbursable from public funds, but may be reimbursable if allowed with a non-Federally sponsored program, agency fund or private funds and if the costs are "ordinary and necessary" for university business. See University Regulation R05.02.070.E.5.c for a more complete description. Generally, expenditures for alcoholic beverages should be recorded using account code 8115 "Entertainment."



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**Alumni activity** costs are unallowable under 2 CFR §200.424, and must be charged to appropriate organization codes with a ‘Z’ type unallowable default program code. See 2 CFR §200.424.

**Applicable credits** refer to those receipts of reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award and direct or indirect costs (for example, purchase discounts, rebates, allowances, proceeds from the sale of animals, etc.) and must be applied to the source of funds that originally incurred the expenditure. .

**Bad debts** arising from uncollectible accounts, related collection costs, and related legal costs are unallowable as a direct charge to a Federally sponsored project. Bad debts charged to non-Federal funds are excluded from the F&A cost calculation by virtue of being charged to account code 8235 "Bad Debts." See 2 CFR §200.426.

**Business meals and meeting costs**, although not explicitly prohibited under OMB 2 CFR § 200, are the subject of a great deal of scrutiny, and in conformance with National Science Foundation and National Institutes for Health (NIH) policies, the university does not permit them to be charged to a Federal or Federal pass thru project, except for awards in support of symposia, conferences, or other business related meetings. However, in cases where a Federal or Federal pass thru project has routine visits from individuals such as project advisory board members, the cost of meeting expenses is allowable if provided for in the approved budget or approved in advance by the funding agency. The account codes 3018 “Restricted Fund Catering” and 4018 “Restricted Fund Self-catered” are used. Any business meal/meeting costs that are charged to a sponsored agreement must have prior university approval via the representational allowance process.

Meals and/or receptions are allowable when charged to non-Federally sponsored projects or the unrestricted funds where "there is a substantial and bona fide business discussion during, directly preceding or directly following the meal" (from IRS guidelines defining "business meal"). A copy of the meeting agenda must be attached to the representational allowance form. These functions might be part of workshops or conferences, Board of Trustees meetings, committee meetings that are part of a sponsored agreement, advisory committee meetings, and faculty and staff recruiting and recognition. See 2 CFR §200.438, Board of Regents’ Policy P05.02.070 and University Regulation R05.02.070.

**Commencement and convocation costs** incurred other than for the purpose of student services and in organization codes with program codes other than student services type



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program codes are unallowable and must be recorded in an organization code with a ‘Z’ type unallowable default program code. See 2 CFR § 200429.

**Communication costs** for monthly telephone service are unallowable as a direct charge to a Federal agreement. If the service is installed specifically for the sponsored project or the project is located in a remote or dedicated location, then the service may be allowable. Telegrams, electronic mail accounts, postage, telephone toll charges, etc. are allowable as a direct charge only when they can be specifically identified with the project. If the service is at all allocable to other activities it must be charged to institutional funds using an organization code with an F&A type program code and not to sponsored projects or to institutional funds using an organization code with an organized research, instruction, or other institutional activities type program code. For the personal use of car telephone costs see "Goods and services for personal use" in this section. See 2 CFR §200.445.

**Contingency reserves** is that part of a budget estimate of future costs (typically of large construction projects or IT systems) which is associated with possible events or conditions arising from causes the precise outcome of which is indeterminable at the time of estimate, and that experience shows will likely result, in aggregate, in additional costs for the approved activity or project. Amounts for major project scope changes, or extraordinary events may not be included; except for pensions, severance, post-retirement health costs and self-insurance reserves monitored by the Statewide (SW) Office of Risk Management (see "Insurance" in this section). Contingency reserves must be approved by SW Fund Accounting and recorded using account code 8453 “Transfers Other.” See 2 CFR §200.433.

**Defense and prosecution** costs for criminal and civil proceedings, claims, appeals and patent infringement, including penalties, are normally unallowable. These costs would be identified through information provided by the SW General Counsel Office. See 2 CFR §200.435.

**Depreciation** of equipment, buildings, capital improvements and software projects capitalized in accordance with GAAP is allowable as a component of the F&A cost rate if the asset used, needed in activities and properly allocated. Department heads are responsible for maintaining current information in the Fixed Asset System for all equipment purchased by the department thru submission of the appropriate forms to the campus property coordinator. Department heads are also responsible for accurate completion of the functional use space survey used to identify the various activities occurring within university buildings. See 2 CFR §200.436.





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**Direct cost transfers** between or to sponsored agreements to eliminate overruns, to avoid restriction imposed by law, or for other reasons of convenience are not permitted. Account code 8661 “Cost Overruns Restricted Funds” must be used to move cost overruns to an unrestricted funding source. See A-05 “Doubtful Grant and Contract Receivables: Write-Off of Unrecoverable Amounts” in Section 100 in the University of Alaska Accounting and Administrative Manual for guidance on writing off cost overruns. See 2 CFR §200.405.

**Donations and contributions** made by the institution, regardless of the recipient, are unallowable under 2 CFR § 200 and because of the nature of the university environment, not normally done. If these types of expenditures are incurred, they should be coded in account codes 8502 ‘Disbursements to Agency Funds’ or 8115 “Entertainment.” Although the value of donated property is not reimbursable as a direct or F&A cost, depreciation on assets donated to the university is permitted in accordance with 2 CFR §200.436. See 2 CFR §200.434.

**Employee health and welfare costs** incurred in accordance with the non-Federal entity’s documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable. By contrast, see “Entertainment” and “Alcoholic Beverages” in this section. See 2 CFR §200.437.

**Entertainment**, defined as amusement, diversion, and social activities and associated costs such as tickets to shows or sports events, meals, lodging, etc., is unallowable, and furthermore, university policy prohibits such charges to institutional funds. These costs may be charged only to university Foundation funds unless the sponsoring agency has approved that the costs are appropriate under the program. Business meals are distinguished from entertainment by the fact that they take place in connection with university business (see “Business meals and meeting costs” in this section). Use account code 8115 “Entertainment” to record these types of expenses. See 2 CFR §200.438.

**Equipment and other capital expenditures** of \$5,000 or more charged as a direct cost to a Federally sponsored agreement must have the prior written approval of the sponsor.

Expenditures for general purpose equipment (defined as equipment which is not limited to research, medical, scientific or other technical activities) on Federal projects are unallowable unless the equipment is primarily or exclusively used in the actual conduct of the project and specifically approved by the sponsor. Acquisition of used university equipment is not permitted from Federal funds unless specifically approved in writing by the sponsor. Department heads are to have appropriate safeguards in place to prevent loss,



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damage, and/or theft of equipment. Any loss, damage, or theft is investigated, fully documented, and reported to the campus Property Office. Equipment stolen or destroyed during the term of a Federally sponsored agreement for which it was purchased must be replaced by the unit if the equipment is needed to complete the performance of work, unless specific approval is obtained from the sponsor to charge the replacement cost to the sponsored agreement. Equipment purchased during the last six months of a Federal project should be reviewed and approved by the principal investigator and the department head. See 2 CFR §200.439.

**Fines, penalties, damages and other settlements** resulting from violations of, alleged violations of, or failure to comply with Federal, state, local, or foreign laws and regulations are unallowable. Should any such payments be made, they should be recorded in account code 3967 “Fines and Penalties” or be recorded in an organization code with a ‘Z’ type unallowable program code. See 2 CFR §200.441.

**Fund raising** costs including financial campaigns, endowment drives, solicitations of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are unallowable. Expenses for established development offices, whether departmental or for the institution as a whole, should be recorded in an organization code with a ‘Z’ type unallowable default program code. If a unit without a formal development office has an individual whose duties officially include fund raising, that effort should be recorded in an organization code with a ‘Z’ type default unallowable program code. The effort of department heads, deans, and directors should not be charged to this account unless fund raising is an individual's sole responsibility. Catering services and commodities expenses related to fund raising events should be recorded in account codes 3038 “Catering for Fund Raising Events” and 4038 “Food/Decorations for Fund Raising Events,” respectively. See 2 CFR §200.442(a).

**Goods or services for the personal use of university employees** are unallowable. In the case where a particular good or service is for both business and personal use, the proportion of personal use is determined, and the imputed value of such use is reported as personal income to the individual. Account code 3119 “Personal Use – Auto/Other” is used to record costs associated with institutional goods and services for personal use. See “Housing allowance and personal living expenses” and “Institution-Furnished Automobiles” in this section for additional information. .

**Housing allowances and personal living expenses** for current and past university/campus officers are unallowable under 2 CFR §200.445(b) . Costs associated with housing



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furnished for personal use do not need to be recorded in account code 3119 “Personal Use – Auto/Other” if they are isolated in a discrete organization code. This information is requested from each university’s Chief Financial Officer for the F&A cost proposal to ensure proper treatment of any unallowable costs. See “Goods or services for personal use of University employees” section for additional information. See 2 CFR §200.445(b) .

**Idle facilities** costs are unallowable unless necessary to meet fluctuations in workload; were necessary when acquired and are now idle because of specific changes which are described in 2 CFR §200.446; or they are a normal cost of business and are a factor in the normal fluctuations of usage or F&A cost rates from period to period.

**Institution-furnished automobiles** used for personal use is an unallowable cost. The portion of the cost related to personal use including transportation to and from work is unallowable and must be reported as taxable income to the employee. Account code 3119 “Personal Use – Auto/Other” is used to record costs associated with institutional furnished automobiles for personal use. See 2 CFR §200.431(f).

**Insurance costs** for government-owned property unless specifically required and approved by the Federal government, insurance against defects, and insurance on officers' and trustees' lives (in excess of the standard fringe benefits package) are unallowable. This information is requested from SW Risk Management for the F&A cost proposal to ensure proper treatment of any unallowable costs. Other insurance, including self-insurance reserves, provided the cost and extent of coverage is in accordance with sound institutional practice, is allowable. See 2 CFR §200.447.

**Interest expense** on borrowed capital or temporary use of endowment funds is unallowable with the exception of interest expense associated with acquisition of buildings, major reconstruction, and acquisition or fabrication of capital equipment costing \$10,000 or more, if agreed to by the Federal government. In order for the interest to be allowable the capital asset acquisition must meet specific criteria. Determination of allowability is made by SW Cost Analysis in conjunction with the SW Controller. Late payment penalties, though not specifically addressed under under 2 CFR § 200, are treated as unallowable. All late payment penalties or interest charges associated with overdue invoices should be charged to account code 8340 “Interest/Fees on Late Payments” to ensure that they are excluded from the F&A cost rate calculation. In the case of a Federal project, the late payment charge must be assessed against a departmental fund. Interest expense on debt should be recorded in account code 8341 “Interest on Debt” and principal payments on long-term debt should be recorded in account code 8342 “Retirement of Indebtedness.” See 2 CFR §200.449.



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**Investment management** costs incurred to enhance income from investments are unallowable except when associated with investments covering pension, self-insurance, or other funds which include Federal participation. These activities must be charged to an organization code with a 'Z' type unallowable default program code. The costs associated with the activities of the SW Cash Management department are excluded from the F&A cost rate proposal. See 2 CFR §200.442(b).

**Lobbying costs** are unallowable. Expenditures for the university public relations offices must be captured in an organization code with a 'Z' type unallowable default program code. These activities are excluded from the F&A cost calculation. The salary and expenses of other individuals who, in the course of their university duties, attempt to influence the outcomes of any Federal, state, or local election, legislation, or award, must be accounted for in a separate account with a organization code with a 'Z' type unallowable default program code so that they can be specifically identified as unallowable in the F&A cost rate proposal as required by 2 CFR § 200. Travel costs associated with lobbying activities must be recorded in account code 2090 "Alaska Lobbying Travel" and 2190 "US Lobbying Travel." Costs incurred for services provided by lobbyists who attempt to influence legislation for the benefit of the university must be charged to account code 3040 "Lobbying Services." Testifying before Congress, providing technical and factual presentations, analyzing the impact of proposed legislation, and similar activities are allowable. Traditional interactions among investigators and Federal agency program officials are also allowable. See 2 CFR §200.450.

**Losses on awards or contracts**, including cost sharing and under-recovery of F&A costs, cannot be allocated to another sponsored agreement (see "Direct cost transfers" in this section). See 2 CFR §200.451.

**Membership costs** in a civic or community organization, country club, or social or dining club/organization are unallowable unless specifically approved by the sponsoring agency. They must be recorded in account code 3663 "Civic or Community Dues/Memberships". Memberships in professional, technical and business organizations are allowable and should be recorded in account code 3662 "Allowable Dues and Memberships". Periodical subscriptions to professional, technical and business organizations are also allowable and should be recorded in accounts 4221 "Printed Subscriptions" or 4222 "Electronic Subscriptions". See 2 CFR §200.454.

**Overtime costs for non-exempt employees**, as a direct charge to a Federal project, can be charged for activities such as experiments that are continuous in nature and cannot be



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reasonably interrupted or where such overtime results in lower overall costs to the sponsor. Overtime must be prorated to each fund and organization code from which an employee is paid unless the overtime is clearly necessitated by demands placed on that employee on behalf of a specific project (see "Additional compensation" in this section). See 2 CFR §200.430.

**Patent costs**, including costs of preparing disclosures, reports, and other documents are allowable, as are costs of patent application filing and patent infringement proceedings and similar legal costs for patents in which title vests with the Federal government. These costs are unallowable in the large majority of the cases where the university retains the patent. The cost of the university intellectual property office continues to be unallowable and must be accounted for as unallowable activity using an organization code with a 'Z' type unallowable default program code. See 2 CFR §200.448(a).

**Pre-agreement costs** are unallowable unless provided for in a sponsored agreement and agreed to by the sponsoring agency. See 2 CFR §200.458.

**Gains and losses on disposition of capital assets** are allowable costs or credits in development of the F&A cost rate. See 2 CFR §200.443.

**Organization Costs**, such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselor, whether or not employees of the non-Federal entity in connection with establishment or reorganization of the organization, are unallowable except with prior approval of the Federal awarding agency. See 2 CFR §200.455.

**Proposal costs** are allowable as indirect (F&A) costs, but cannot be charged to Federally sponsored projects **except** for continuation or renewal proposals that are submitted as a requirement of the existing contract, grant or cooperative agreement. These costs are allowable as a direct cost to the existing sponsored project. All other proposal costs must be charged to an organization code with 'D' type administrative default program code. See 2 CFR §200.460. and 48 CFR 9905.502 - Consistency in Allocating Costs Incurred for the Same Purpose by Educational Institutions , Interpretation c.

**Public/Community relations** are efforts dedicated to maintaining the image of the institution or maintaining or promoting understanding and favorable relations with the community or public at large. Expenses associated with such activities, which include meetings, conventions, convocations, open houses, and non-technical displays and exhibits, are unallowable under OMB 2 CFR § 200. These costs should be recorded in



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account code 3501 “Other Advertising/Publicity” or charged to organization codes with a ‘Z’ type unallowable default program code. The only allowable public relations costs are: (1) Costs specifically required by the Federal Award; (2) Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of the Federal award (these costs are considered necessary as part of the outreach effort for the Federal award); (3) Costs of conducting general liaison with news media and government public relations officer, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern such as notices of funding opportunities, financial matters, etc. See 2 CFR §200.421.

**Publication and printing** costs for electronic and print media, including distribution, promotion, and general handling are unallowable as a direct charge to a Federal program unless these costs are identifiable with a particular cost objective of the award. See 2 CFR §200.461.

**Rearrangement and alteration** is defined as work required to change the interior arrangements or other physical characteristics of an existing facility. Alteration and rearrangement expenditures are allowable costs, but cannot be charged directly to a Federal agreement unless the cost is included in the approved budget or specifically approved in advance by the sponsor. See 2 CFR §200.462.

**Relocation costs** for employees who stay less than 12 months are unallowable under OMB 2 CFR § 200 and must be charged to account code 2451 ‘Relocation’ using an organization code with a ‘Z’ type unallowable default program code. Additional restrictions on relocation costs are identified in 2 CFR §200.464.

**Royalties and other costs for use of patents** that are necessary for the proper performance of the sponsored agreement and applicable to the tasks or process under taken as part of the agreement are allowable unless the Federal government has a license or right to free use of the patent, the patent has been adjudicated to be invalid or has been administratively determined invalid, the patent is unenforceable, or the patent has expired. There are specific requirements for royalties arrived at as a result of less-than-arms-length bargaining. See 2 CFR §200.448(b).

**Sabbatical and other similar paid leave** is unallowable as a direct cost to Federally sponsored agreements unless there is prior written approval from the granting agency. See 2 CFR §200.430(h)(7).



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**Scholarships and student aid** costs are allowable as a direct charge to sponsored projects only when the purpose of the award is to provide training and the charge is approved by the sponsoring agency. Tuition remission and other forms of reasonable support that are associated with student status and provided to individuals participating in the necessary work of direct activities are allowable on sponsored awards provided 1) the individual is conducting activities necessary to the sponsored agreement; 2) tuition remission and other support are provided in accordance with established university policy and consistently provided to all students in return for similar activities conducted in non-sponsored as well as sponsored activities; and 3) during the academic period, the student is enrolled in an advanced degree program and the activities of the student in relation to the direct activities are related to the student's degree program. Charges for tuition remission and other forms of compensation paid to students as, or in lieu of, salaries and wages are subject to the reporting requirements of 2 CFR § 200.431(j)(1), or an equivalent method for documenting the individual's effort on a research project. These costs are allowable direct or F&A costs, depending on the actual work being performed. See 2 CFR §200.466.

**Selling and marketing** costs of any products or services sold by the university are unallowable. Should any of these costs be incurred in institutional accounts (as contrasted to auxiliary accounts), they should be recorded in the items for resale account code range of 4501 – 4771 or in an organization code with a 'Z' type unallowable default program code. See 2 CFR §200.467.

**Severance pay** which is in excess of regular university policy and practice is unallowable. Excess severance pay should be recorded in an organization code with a 'Z' type unallowable default program code. See 2 CFR §200.431(j).

**Student activity** costs such as intramural activities, student publications, student clubs, and operation of the student union and similar types of costs for student activities are unallowable under OMB 2 CFR § 200, and must be recorded in organization codes with 'SZ' type unallowable default program codes. See 2 CFR §200.469.

**Travel costs** in excess of the university travel policy are unallowable according to 2 CFR §200.474. Costs of travel by university-owned, leased, or chartered aircraft cannot exceed the cost of allowable commercial air travel. Airfare travel costs in excess of the basic least expensive unrestricted accommodations class offered by commercial airlines.

Temporary dependent care costs as a direct result from travel on a sponsored award are unallowable, per University of Alaska Travel Regulations



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Domestic travel is defined as travel within the United States, its territories and possessions, and Canada. 2 CFR § 200 no longer requires specific approval for each foreign (outside of U.S., its territories and possessions, and Canada) trip, although the Department of Defense continues to require advance approval for each foreign trip. Air transportation to, from, between, or within a country other than the United States must be by a U.S. Flag Air Carrier if service by such a carrier is available. See 41 CFR§300.10 for additional information.



**D-03 Accounting for Unallowable Costs - Attachment #1**  
**2 CFR § 200 Listing of Costs that are Unallowable either as a Direct or Indirect Charge to Federally Sponsored Agreements**  
**Effective December 26, 2014**

Unallowable cost means any cost which, under the provision of any pertinent law, regulation, or sponsored agreement, cannot be included in prices, cost reimbursements, or settlements under a Federal sponsored agreement to which is specifically identified. The Federal government is unwilling to pay for any unallowable cost as a direct expense under a sponsored agreement or as an indirect expense through the Facilities and Administrative (F&A) rate charged to each sponsored agreement. UA is not prohibited from incurring unallowable costs, but cannot recover them from Federal sponsors directly or indirectly. It is critical that UA be able to identify unallowable costs and activities so that UA can assure the Federal government that no unallowable costs or activities are included in the indirect costs allocated to the direct bases through the Facilities and Administrative Forward Pricing rate proposal development process.

The following information is from OMB 2 CFR § 200 Subpart E-Cost Principles. General provisions for selected items of cost. This section of the Code of Federal Regulations provides principles to be applied in establishing the allowability of certain items involved in determining cost. These principles apply regardless of whether the cost is indirect or direct. If a particular expense is not mentioned then determination of allowability is based on the treatment provided for similar or related items of cost. This information is not to be considered a substitute for the language in 2 CFR § 200 Subpart E-Cost Principles. Employees should read the specific referenced section when trying to determine if a particular cost is unallowable.

The provisions of a particular sponsored agreement govern when there is a discrepancy in the treatment of a particular cost.

**Acronyms:**

F&A - Facilities and Administrative Cost (indirect, overhead)

OSA - Other Sponsored Activity

OIA - Other Institutional Activity

Method of Identification			2 CFR § 200 Reference	Type	Description	F&A Treatment for Unallowable Costs		
UA Acct Code	Program Code Type	Other				Pool Expenses	Pool Activities	Base Expenses and Activities
3501	All		§200.421	Advertising Expenses	Specifically unallowable, but allowable for recruitment of personnel, procurement of goods and services, disposition of surplus/scrap materials, program outreach and other specific purposes required for the performance by the institution, if necessary to meet the requirements of the sponsored agreement.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
All	Z		§200.421	Public Relations Activities	Specifically unallowable except (1) costs specifically required by sponsored agreement; (2) costs of communicating with public and press pertaining to specific accomplishments which result from performance of sponsored agreements; (3) costs of conducting communication and liaison necessary to keep public informed on matters of public concern such as notices of awards, financial matters, etc.		OIA Base	Sponsored activities remain in Instruction, Research, OSA, or OIA base.
		Rely on University Grants & Contracts Office	§200.422	Advisory Councils	Costs incurred by advisory councils are unallowable unless authorized by statute, or by the sponsoring agency.			Expenses remain in the respective Instruction, Research, OSA, or OIA base.
8115	All		§200.423	Alcoholic Beverage Expenses	Specifically unallowable	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
All	Z		§200.424	Alumni Activity	Specifically unallowable		OIA Base	Sponsored activities remain in Instruction, Research, OSA, or OIA base.

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UA Acct Code	Program Code Type	Other				Pool Expenses	Pool Activities	Base Expenses and Activities
8235	All		§200.426	Bad Debt Expense	Specifically unallowable	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
All	GS		§200.429	Commencement and Convocation Costs	Allowable cost if included in student services administration pool.		Student Services Admin Pool	Sponsored activities remain in Instruction, Research, OSA, or OIA base.
Assume None			§200.431 (g)(4)	Pension Costs	Increases to normal and past service pension costs caused by a delay in funding the actuarial liability beyond 30 days after each quarter of the year to which such costs are assigned.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
1986 and 1987	All		§200.431 (j)(1)	Dependent and Spouse Tuition Remission	Specifically unallowable	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
		Rely on University HR & Grants & Contracts Offices	§200.430 (h)(7)	Sabbatical Leave Costs	Allowable provided the institution has a uniform policy on sabbatical leave for persons engaged in instruction and persons engaged in research. Prior written approval must be obtained from the granting agency.			Expenses remain in the respective Instruction, Research, OSA, or OIA base.
3119	All	W-2 Information	§200.431 (f)	Personal Use of UA Vehicles	Institution furnished automobile costs for personal use (includes transportation to and from work) are unallowable.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
Assume None			§200.430 (i)(1)	Severance Pay	Costs incurred in excess of the institution's normal severance pay policy applicable to all persons employed by the institution upon termination of employment are unallowable.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
Assume None			§200.433	Contingency Provisions	Specifically unallowable except for self-insurance, pensions, severance & post-retirement health costs according to 2 CFR § 200.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
		Letter to General Counsel	§200.435	Legal Expenses	Defense and prosecution of criminal and civil proceedings, claims appeals and patent infringement. Costs incurred by the institution for defense of suits brought by its employees or ex-employees are unallowable if the institution was found liable or settled. Costs of legal, accounting, consultant services and related costs incurred with defense against government claims or appeals, or the prosecution of claims or appeals against the government are unallowable. Costs of legal, accounting, consultant and related costs, incurred in connection with patent infringement litigation, are unallowable unless otherwise provided for in the sponsored agreements.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.

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UA Acct Code	Program Code Type	Other				Pool Expenses	Pool Activities	Base Expenses and Activities
Does not Apply			§200.436	Depreciation Reserves	Depreciation reserves: Institutions shall expend currently, or reserve for expenditure within the next five years, the portion of indirect cost payments made for depreciation under sponsored research agreements, to acquire, repair, renovate, or improve buildings or equipment directly used for organized research.	N/A		N/A
8502 and 8115	All		§200.434	Donations or Contributions	Unallowable regardless of recipient	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
8115	All		§200.438	Entertainment Expenses	Entertainment costs including amusement, diversion, social activities, and any costs directly associated with such costs are unallowable.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
5XXX	All		§200.439	Equipment	Pool capital expenditures are excluded since they are recovered through depreciation. All capital expenditures for general purpose equipment and special purpose equipment are unallowable as direct charges, except where approved in advance by the sponsoring agency. These costs are excluded from all MTDC bases.	Excluded		Excluded from MTDC
3967	All		§200.441	Fines, Penalties, Damages and Other Settlements	Fines and penalties costs resulting from failure of the institution to comply with federal, state, local or foreign laws and regulations are unallowable unless specifically approved by a federal agency.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
3038 & 4038	Z		§200.442	Fund Raising and Investment Costs	Fund raising, and investment management costs are unallowable except for costs related to the physical custody and control of monies and securities.	Excluded	OIA Base	Expenses remain in the respective Instruction, Research, OSA, or OIA base.
3119	All		§200.445 (a)	Goods or Services for Personal Use	Cost of goods or services for personal use of the institution's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
		Letter to CFOs	§200.445 (b)	Housing and Personal Living Expenses	Costs of housing (including utilities, depreciation, maintenance, etc.), housing allowances, and personal living expenses for the institution's current or past officers are unallowable regardless of whether the cost is reported as taxable income to the employees.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
		Letter to Space Mgmt.	§200.446	Idle Facilities & Idle Capacity	Costs of idle facilities are generally unallowable. See 2 CFR §200.446(b) for determining allowable idle facilities costs.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
		Letter to Risk Mgmt.	§200.447	Insurance and Indemnification Costs	Insurance costs to protect against defects in the institution's materials or workmanship are unallowable. Other insurance, including self-insurance reserved, is allowable.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.

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UA Acct Code	Program Code Type	Other				Pool Expenses	Pool Activities	Base Expenses and Activities
8340, 8341 & 8342	Z	Cash Flow Analysis	§200.449	Interest	Interest costs are unallowable except for interest expenses paid to external parties for assets (buildings and equipment) used to support sponsored agreements. Additional specific criteria exist in OMB 2 CFR §200.449(c) that must be satisfied in order for interest expenses to be allowable.	Excluded	OIA Base	Expenses remain in the respective Instruction, Research, OSA, or OIA base.
2090, 2190 & 3040	Z		§200.450	Lobbying	Unallowable lobbying costs and activities are defined broadly to include costs associated with any attempt to influence governmental (federal, state, local, etc.) elections and legislation. Legislative liaison activities are unallowable if the activity is carried on in support of or in preparation of unallowable lobbying activities. Executive lobbying costs incurred in attempting to apply any influence that induces or tends to induce either directly, indirectly, an employee or officer of the Executive Branch of the Federal Government to give consideration or to act regarding a sponsored agreement or a regulatory matter on any basis other than the merits of the matter. In general, lobbying expenses may not be paid for with funds from sponsored agreements unless specifically authorized by statute.	Excluded	OIA Base	Expenses remain in the respective Instruction, Research, OSA, or OIA base.
8661		Rely on University Grants and Contracts Office	§200.451	Losses on Other Awards or Contracts	Costs in excess of income (overruns) under any award or contract are unallowable.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
3663	All		§200.454	Memberships, Subscriptions, and Professional Activity Costs	Cost of membership in any civic, community, social, dining or country club or organization are unallowable.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
		Rely on University Grants and Contracts Office	§200.458	Pre-agreement Costs	Cost incurred prior to the effective date of the sponsored agreement are unallowable unless approved by the sponsored agency.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
		Rely on University Grants and Contracts Office	§200.455	Organizational Costs	Costs such as incorporation fees, brokers' fees, fees to promoters, organizers or management consultants, attorneys, accountants, or investment counselor, or unallowable except with prior approval of the Federal awarding agency.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
		Letter to General Counsel, Rely on University Procurement & GCS Offices	§200.459	Professional Services Costs	Determine allowability for legal professional services costs in conjunction with 2 CFR §200.435. Other professional services are allowable if the criteria listed in 2 CFR §200.459 are met.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.

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UA Acct Code	Program Code Type	Other				Pool Expenses	Pool Activities	Base Expenses and Activities
		Assume None	§200.463	Recruiting Costs	Recruiting costs for help wanted advertising, special emoluments, fringe benefits, and salary allowances incurred to attract professional personnel from other institutions that do not conform with the established practices of the institution, are unallowable.			
		Assume None	§200.465	Rental Cost of Real Property and Equipment	Allowable, in general, but there are specific rules to ensure that costs are fair and that capitalizable leases are not expensed.			
		Rely on University Intellectual Property & GCS Offices	§200.448	Royalties and Other Costs for Use of Patents	Costs must be necessary for proper performance of sponsored agreement and applicable to the tasks or processes undertaken as part of the agreement unless the Federal Government has a license or right to free use of the patent, patent is invalid, patent is unenforceable, or patent has expired. There is additional criteria in determining reasonableness where royalties may have been arrived at as a result of less-than-arm's-length bargaining, see 2 CFR §200.448(b)(2).	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
		Rely on University Grants & Contracts Office	§200.466	Scholarships and Student Aid Costs	Unallowable unless the purpose of the sponsored agreement is to provide training to selected participants and the charge is approved by the sponsoring agency.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
3501	Z		§200.467	Selling and Marketing	Costs of selling and marketing any products or services of the institution are unallowable unless allowed under 2 CFR §200.421(b)(1-4) - Allowable Advertising or 2 CFR §200.460 - Proposal Costs.		OIA Base	Sponsored activities remain in Instruction, Research, OSA, or OIA base.
		B-01 Service-Recharge Centers Policy	§200.468	Specialized Service Facilities	Specialized service facilities charges should be designed to recover not more than the aggregate cost of the services over a long-term period agreed to by the institution and the cognizant federal agency.			
	Z		§200.469	Student Activity Costs	Costs incurred for intramural activities, student publications, student clubs and other student activities, are unallowable, unless specifically provided for in the sponsored agreement.		OIA Base	Sponsored activities remain in Instruction, Research, OSA, or OIA base.
		Rely on University Grants and Contracts Office	§200.474	Travel Costs	Airfare travel costs in excess of the basic lease expensive unrestricted accommodations class offered by commercial airlines are unallowable except in special circumstances.	Excluded		Expenses remain in the respective Instruction, Research, OSA, or OIA base.
		Assume None	§200.471	Termination Costs Applicable to Sponsored Agreements	Termination of sponsored agreements generally lead to the incurrence of costs or to the special treatment of costs, which would not have occurred if the agreement had not been terminated. See OMB 2 CFR §200.471 when terminating a sponsored project to determine the appropriate treatment of costs.			Expenses remain in the respective Instruction, Research, OSA, or OIA base.