



UNALLOWABLE COSTS FOR SPONSORED AGREEMENTS

- Scope:** All campuses served by Louisiana State University (LSU) Office of Accounting Services
- Effective:** May 1, 2013
- Purpose:** To provide information about identifying and allocating unallowable costs as defined in OMB Uniform Guidance.

Background: The Office of Management and Budget (OMB) Uniform Guidance (UG) establishes principles for determining costs applicable to grants, contracts and other agreements with educational institutions. UG prohibits the University from charging (directly or indirectly) federally funded agreements for costs that UG refers to as “unallowable costs”. Additionally, a number of non-federal sponsors also consider these costs to be unallowable charges to their sponsored agreements (consult agency guidelines/policies for this determination). Please note that there are a few exceptions to the categories listed below.

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 Principal Investigators (PIs), as well as the Office of Accounting Services, understand and consistently follow the stated guidelines to ensure uniform assignment of costs.

Procedures:

A. Allowability of Costs

1. According to UG, “The tests of **Allowability of Costs** under these principles (UG) are:
 - a. they must be **reasonable**;
 - b. they must be **allocable** to sponsored agreements under the principles and methods provided herein;
 - 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 costs items.”
2. A cost may be considered **reasonable** if the nature of the goods or services acquired or applied, and the amount involved reflects the action that a prudent person would have taken under the circumstances prevailing at the time the decision to incur the cost was made.
3. A cost is **allocable** to a specific sponsored agreement if the goods or services purchased are assignable with a high degree of accuracy to the sponsored agreement in accordance with relative benefits received or other equitable relationship.

B. Unallowable Direct Costs

Unallowable direct costs are those costs which are not allowable under the terms and conditions of federally sponsored agreements and/or those costs specifically identified as unallowable in Section 200.420 of OMB Circular Uniform Guidance. Normally the following expenditures (not all inclusive) are **unallowable** as a direct charge to a federally sponsored agreement without specific written approval:

- Administrative and Clerical Services
- Advertising of position and moving costs – unless position included in budget and 100% appointment on agreement
- Alcoholic Beverages
- Alumni and Development Activities
- Automobile Repairs
- Bad Debt Expense
- Commencement and Convocation Costs
- Copier Rental/Maintenance
- Entertainment
- Extra Compensation for Professorial or Professional Employees
- Fines and Penalties
- Fund Raising
- General Purpose Equipment – computers, copying and printing equipment
- Goods and services for personal use
- Lobbying Costs
- Local Telephone Calls (long distance calls are allowable)
- Maintenance & Repair Costs
- Memberships
- Monthly Cell Phone Base Charge
- Office Furniture – file cabinets, chairs, desks, calculators, typewriters
- Office Supplies – pens, paper, toner
- Postage (routine)
- Proposal Development Costs
- Software (Windows, Microsoft Office, Adobe, etc.)
- Subcontracts without Written Approval
- Subscriptions
- Telephone Rental and Line Charges
- Utilities

C. Policy Administration

1. The PI is primarily responsible for the management and administration of his/her individual award within the financial constraints outlined by the individual sponsor in the terms of the award and in accordance with LSU's policy governing unallowable costs. The PI, co-investigators, project staff, and the department administrative support staff are responsible for ensuring that the unallowable items are excluded from the budget data contained in proposals submitted to federal agencies, and that these cost categories are not charged to the federally sponsored agreement or cost sharing accounts.
2. Sponsored Program Accounting (SPA) is responsible for guidance, training and ensuring compliance through internal and external audits. SPA will review the award and subsidiary ledgers of sponsored

accounts when preparing financial reports in order to verify that the charges are allowable. This is an after-the-fact review and SPA will notify the PI and/or the responsible department personnel when unallowable costs must be removed from the sponsored account.

3. Unallowable costs are identified and segregated by a combination of the following methods:

- Use of unique object codes to properly track and eliminate specific types of expenditures that may not be charged to federally sponsored agreements
- A review of expenditures conducted as part of the development of the facilities and administrative (F&A) proposal
- An after-the-fact review conducted by SPA personnel of general ledger expenditures
- Identification and exclusion of unallowable costs from any billing, claim or proposal under a federal award

D. Responsible Office

Questions regarding the allowability and treatment of costs charged to sponsored agreements should be directed to SPA at (225) 578-5337. The SPA contacts can be found on the Roles tab of the grant or award. A list of SPA contacts can also be found on the SPA website:
<http://www.lsu.edu/administration/ofa/oas/spa/index.php>.