

GUIDELINES ON THE IDENTIFICATION AND TREATMENT OF UNALLOWABLE COSTS

“Unallowable costs” are expenses that may not be directly or indirectly charged to federal grant awards. These guidelines facilitate the identification of such costs and the proper accounting treatment of them to help ensure that unallowable costs are not charged directly to federal grant awards or recovered indirectly through DePaul’s federally negotiated facilities and administrative (F&A) cost rate.

What Makes a Cost Unallowable?

A cost may be deemed unallowable in either of two ways:

- By failing to meet the criteria established by the Office of Management and Budget (OMB) for charging costs to federal grant awards.

OR

- By being specifically identified as an excluded cost by OMB, by the awarding agency, or by the terms of the particular grant award.

OMB Criteria

The criteria that a cost must meet to be charged to a federal grant award are detailed in [Charging Costs to Federal Grant Awards: General Standards](#), an Office of Research Services (ORS) document published on the ORS web site.

These criteria include:

- General considerations (e.g., whether the cost is consistent with university policies and procedures and is adequately documented);
- Reasonableness (e.g., whether the cost reflects market prices for comparable goods or services); and
- Allocability (e.g., whether the cost clearly benefits the sponsored project to which it is being charged).

Please see this document, which has been developed for Principal Investigators and others involved in the financial management of grant awards, for a full list of these criteria.

Excluded Costs

In addition to establishing these general criteria, OMB provides guidance on whether particular cost items may be charged to federal grant awards. This guidance is condensed in [Charging Costs to Federal Grant Awards: Guidance on Particular Cost Items](#), a document published on the ORS web site. The first page lists those costs--such as alcoholic beverages, bad debts, entertainment, and fundraising-- that are generally deemed unallowable by OMB, with limited exceptions in some cases. Please see this document for a full list of excluded costs.

Identifying and Removing Unallowable Costs

DePaul has numerous safeguards in place to identify unallowable costs and avoid charging them to federal grant awards:

- PIs at DePaul have primary responsibility for ensuring that all costs directly charged to federal grant awards are reasonable, allowable, and allocable. To facilitate this, all new

PIs with federal funding complete a required federal grants management training program that includes several web-based training modules on charging costs to federal grant awards. Topics covered include the OMB guidance concerning cost allowability discussed above; charging administrative costs to federal awards; time and effort certification; cost sharing; and cost transfers.

- During the proposal stage, ORS pre-award staff are responsible for screening for unallowable costs during budget development, working with PIs to remove any unallowable costs and assisting PIs in adequately justifying budgeted costs in advance of proposal submission to the funding agency.
- ORS post-award staff are responsible for reviewing all personnel actions, including all new hires and all salary allocations to federal grant awards; costs of more than \$2,500 on purchase orders (PO); all budget revisions; and requested cost transfers involving salary costs.
- Restricted Accounting staff review reimbursements; non-salary related cost transfers; and invoices from subrecipients.
- Business managers and administrators at the college and department level are responsible for consulting the ORS documents on cost allowability referred to above when approving ProCard and other small purchases.
- In the event that an unallowable cost is assigned to a federal award, Restricted Accounting is responsible for moving it to a college or department account. As part of this process, Restricted Accounting consults with the department/college where the PI is located to identify an operating account to which to move the cost. If the department/college does not respond in a timely manner, Restricted Accounting moves the cost unilaterally to protect the integrity of the federal award.

Excluding Unallowable Costs from the F&A Proposal

DePaul also has systems in place to ensure that unallowable costs are not included in its facilities and administrative (F&A) cost proposal:

- DePaul utilizes an extensive list of 6-digit account codes that are assigned as descriptors to all expenses in all expense accounts within the university's accounting system. All budget managers, including those responsible for grant accounts, are required to ensure that each account code assigned to an expense accurately reflects the nature of it. The table below indicates the DePaul account codes that are to be assigned to those costs identified as unallowable by OMB.
- In addition to being assigned account codes, all expenses within DePaul's accounting system are categorized by DeptID. The DeptID is 6-digit number that locates the expense within the university. During preparation of the F&A cost proposal, DeptIDs are used to segregate the costs associated with whole areas of university activity, such as fund raising, that OMB deems unallowable.

- The Director of Restricted Accounting is responsible for preparing DePaul's F&A cost proposal in consultation with an external consulting firm retained for this purpose. During preparation of the proposal, the Director makes use of DePaul's system of account codes and DeptIDs, as described above, and other analysis to ensure that unallowable costs are excluded. This work is reviewed by the consulting firm and by DePaul's Vice President for Finance before the cost proposal is submitted.

The table on the following pages pairs unallowable costs with the account codes and DeptIDs that should be used to identify them within DePaul's accounting system. The table also indicates when cost analysis is used to segregate unallowable costs during preparing of the F&A cost proposal.

IDENTIFICATION OF UNALLOWABLE COSTS WITHIN DEPAUL'S ACCOUNTING SYTEM

Cost Item	OMB Rule*	Method of Identification— Unallowable Accounts/DeptIDs
Advertising and public relations costs	Unallowable except to meet the specific requirements of a federal award (e.g., recruitment of personnel and procurements of necessary goods and services).	Account 553110 – Advertising DeptID 239100 – Public Relations and Communications DeptID 239102 – Public Relations & Communications DeptID 109100 – Community, Govt, and Int'l Relations DeptID 604100 – Community Relations Operating. DeptID 604302 – Lincoln Park Initiative
Alcoholic beverages	Costs of alcoholic beverages are unallowable.	Account 553500 - Entertainment
Alumni/ae activities	Cost incurred for, or in support of, alumni activities are unallowable.	Various DeptIDs, all under rollups 004121, 004122 and 004123
Bad debts	Debts which have been determined to be uncollectable (bad debts), including losses arising from uncollectable accounts and other claims, are unallowable.	Account 604660 – Bad Debt Student Accts. Account 604661 – Bad Debt Other Account 604642 – Retail Other Account 604643 – SL Bad Debt Expense
Civil, criminal, or administrative proceedings	Costs relating to a violation of or failure to comply with, a Federal, state, local or foreign statute, regulation or the terms and conditions of the Federal award are unallowable except in very limited circumstances.	Managed by the Office of the General Counsel. Expenses are coded to Department rollup 003603. All legal costs are identified and analyzed for unallowable costs.

*The OMB rules in the middle column come from Subpart E, sections 200.421-475, of the *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR 200).

Cost Item	OMB Rule	Method of Identification— Unallowable Accounts/DeptIDs
Commencement and convocation costs	Costs incurred for commencements and convocations are unallowable.	Account 553120 - Commencement
Contingency provisions	Contingencies to address major project scope changes, unforeseen risks, or extraordinary events are not allowable.	Managed by the Controller. All reserves are identified and analyzed for the purpose of identifying unallowable costs.
Contributions and donations	Costs of contributions and donations (including cash, property, and services) by DePaul are unallowable.	Account 554605 – External Contribution/sponsorship Account 553590 - Awards
Entertainment costs	Costs of entertainment, including amusement, diversion, and social activities and associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the federal award or with prior written approval of the federal awarding agency.	Account 553500 – Entertainment Account 557310 - Tickets
Fines, penalties, damages, or other settlements	Costs resulting from violations of or failure to comply with federal, state, tribal, local or foreign laws and regulations are unallowable, except when resulting from compliance with specific provisions of the federal award, or with prior written approval of the federal awarding agency.	Account 604660 – Fines / Penalties
Fund raising and investment management costs	Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable. Costs related to the physical custody and control of monies and securities are allowable.	Fundraising - Various DeptIDs, all under rollups 004121, 004122 and 004123

Cost Item	OMB Rule	Method of Identification— Unallowable Accounts/DeptIDs
Goods or services for personal use	Costs of goods and services for personal use of DePaul employees are unallowable regardless of whether the cost is reported as taxable income. Costs of housing, housing allowances and personal living expenses are only allowable as direct costs if approved in advance by a federal awarding agency.	Personal use expenses are prohibited by DePaul policy and may not be reimbursed to employees.
Interest	Costs incurred for interest on borrowed capital, temporary use of endowment funds, or the use of DePaul's own funds are unallowable. Financing costs (including interest) to acquire, construct, or replace capital assets are allowable, subject to various conditions.	Each interest account and DeptID is analyzed to determine allowability.
Lobbying costs	The costs of influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans are unallowable, as are costs associated with attempts to influence election outcomes or legislation.	Lobbying is managed by Community and Government Relations. See the <i>Contacts with Public Officials</i> policy. The costs associated with all contacts are reviewed for allowability.
Losses on other awards or contracts	Any losses associated with other awards or contracts are unallowable.	Recorded as bad debt. See the bad debt section above.
Membership in country, social, or dining clubs, or in lobbying organizations	Costs of membership in any country club or social or dining club or organization, or membership in organizations whose primary purpose is lobbying, are unallowable. Costs of membership in business, technical, and professional organizations and of subscriptions to business, professional, and technical periodicals are allowable. Costs of membership in civic or community organizations are allowable with prior approval by the federal awarding agency.	554610 – Dues / Memberships
Selling and marketing costs	Costs of selling and marketing any DePaul products or services are unallowable, except when necessary for the performance of the federal award, with the prior approval of the federal awarding agency.	See the section on advertising above.