



University of Dayton

Accounting Guidelines for Unallowable Costs

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The University of Dayton has established these guidelines for defining and identifying costs that are unallowable for reimbursement from the Federal Government and other sponsors. The University of Dayton adheres to Cost Accounting Standard 505, Accounting for Unallowable Costs and other applicable government regulations including the Federal Office of Management and Budget Uniform Guidance ([OMB Uniform Guidance](#)) as well as sponsor terms and conditions in accounting for unallowable costs.

These guidelines include:

1. Identification and correction of costs specifically described as unallowable.
2. The cost accounting treatment to be followed for identifying unallowable costs in order to promote the consistent application of sound cost accounting principles covering all incurred costs.

For the description of allowable and unallowable costs with respect to sponsored programs, please refer to the [University of Dayton Policy on Unallowable Costs](#).

Activities and expenses which are unallowable for reimbursement on a Federally-funded award may still be appropriate, necessary and allowable on a non-Federally funded award. Departments may still incur these activities/expenses but they must be coded as unallowable so they can be readily identified and excluded from the indirect cost calculation. However, the accounting treatment prescribed by Uniform Guidance requires specific identification of these costs in the accounting records or memos and prescribes methods to prevent these costs from being included in any proposal, billing or claim that applies to a Federally-funded award.

Unallowable costs are identified and segregated in the University's accounting systems. In Ellucian Banner, unallowable costs are identified and excluded based on account codes. In Deltek Costpoint (the sponsored research subledger), unallowable costs are captured in a specific range of accounts designated as unallowable for easier tracking and proper treatment for indirect rate calculations. Deltek Costpoint restricts unallowable costs to designated unallowable projects in order to capture the specific unallowable activities for project reporting or budgeting.

All direct expenses are reviewed on a monthly basis by the Research Accounting Office prior to being invoiced to a sponsor. Sponsor invoices receive a secondary review by



the Principal Investigator (PI) prior to being submitted. All labor and travel expenses are approved by the PI prior to being posted to the general ledger. Travel expenses also receive a secondary review by the Research Accounting Office. Subcontractor invoices are reviewed by the Subcontracts Management Team and the PI to ensure they are allowable and appropriate prior to being posted to the general ledger. Research Procurement and PIs review other expenses for allowability, allocability, and to ensure they are fair and reasonable prior to the purchase being made. At the end of the award, the PI must certify that all expenditures reported in the general ledger for an award are Allowable in accordance with provisions of the award documents and, where required, corrections have been completed prior to the award entering the closeout process. If the PI is not available, an individual with direct knowledge of the project (i.e., PI's supervisor or the Departmental Research Administrator) may certify on the PI's behalf.

When developing the Facilities and Administrative (F&A) rate proposal, the Director of Cost Analysis performs a thorough cost analysis to ensure unallowable expenses are not included in the F&A rate calculation. This analysis is also reviewed and confirmed by the University Controller and Chief Financial Officer.

Correction of Unallowable Costs

It is expected that costs will be posted to the correct account. However, in the event that an Unallowable cost is improperly charged to an allowable account, the transfer to an unallowable account should be made as soon as the need for correction is identified. Corrections should be provided to the Research Accounting and/or Controller's Office as appropriate for the affected expense. All transfers will be reviewed and approved by the Director of Research Accounting to ensure the unallowable expense is appropriately transferred to the appropriate unallowable account. For payroll corrections, the employee will submit a correcting timesheet including a brief explanation. For non-timesheet payroll corrections, the Payroll Office will initiate a payroll reallocation and maintain documentation of the transaction.

Certain Allowable non-sponsored expenses may be Unallowable for purposes of the F&A Cost Proposal. Examples include fines/penalties, commencement expenses, and fundraising activities. Unique account or project numbers are used to identify these Unallowable activities and they are moved to Other Institutional Activities. This process ensures these activities, which are legitimate for university purposes, are not included in the organized research base and still draw their share of general administrative and other costs.

In some instances, the accounting records may not be sufficient to clearly identify an unallowable cost or activity. This could occur when a booked cost is partially unallowable or when an unallowable activity results in the incurrence of several different types of otherwise allowable costs. In this circumstance, supplemental records (such as a spreadsheet) shall be maintained to identify the unallowable cost and to provide an explanation for the cost classification.



Responsibilities

Principal Investigator (PI):

Ensure that all disbursements from the award are:

- Reasonable and necessary to accomplish the project goals
- Allowable per the terms of the award and applicable regulations
- Properly authorized and documented
- Within the period of availability
- Reviewed timely and documented

Research Business Services and Department Fiscal Staff:

- Monitor for Unallowable costs
- Initiate timely transfer of Unallowable costs

Research Accounting Office:

- Monitor sponsored awards for Unallowable costs
- Process correcting entries for the transfer of Unallowable costs to unallowable accounts as necessary for sponsored programs
- Maintain a chart of accounts that restricts unallowable costs to designated unallowable projects in order to capture the specific unallowable activities for project reporting or budgeting.

Controller's Office:

- Process correcting entries for the transfer of Unallowable costs as necessary
- Develop and negotiate F&A cost rates
- Overall responsibility for direct versus F&A compliance and cost implementation

Key Cost Principles for Federal Awards

In general, the Uniform Guidance requires that for a cost to be allowable it must be real, reasonable, and allocable.

Allowable Costs: Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (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 exclusions 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 in 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(b).
- (g) Be adequately documented. See also §§200.300 through 200.309 of this part.
- (h) Cost must be incurred during the approved budget period. The Federal awarding agency is authorized, at its discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods pursuant to §200.308(e)(3).

Reasonable costs: A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:

- (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
- (b) The restraints or requirements imposed by such factors as: sound business practices; arm's-length bargaining; Federal, state, local, tribal, and other laws and regulations; and terms and conditions of the Federal award.
- (c) Market prices for comparable goods or services for the geographic area.
- (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
- (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.



Allocable Costs: A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (1) Is incurred specifically for the Federal award;
- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.

Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude the non-Federal entity from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards.

If the contract is subject to CAS, costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.