

Western Michigan University

Unallowable Costs - Reasonableness Doctrine

Purpose

To present categories of cost that are identified as unallowable by the federal government through Code of Federal Regulations Title 2: Grants and Agreements Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2CFR Part 200) which must be separately identified by separate accounts or object codes.

Policy

Unless otherwise indicated for a specific type of cost, unallowable costs must be excluded from direct and indirect charges to federally sponsored agreements. Unallowable directly associated costs will also be excluded from charges to federally sponsored agreements. **Directly associated costs** means 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. Unallowable costs may be charged to non-federal accounts but must be specifically identified by object code for F&A cost purposes.

The information here provides more detail and gives examples as guidance to managers of university accounts.

1. Advertising

Rule: Advertising costs related to the promotion of Western Michigan University are unallowable.

Exceptions: Advertising for the recruitment of personnel, procurement of goods and services, disposal of scrap, or other specific purposes as required by the terms of a sponsored agreement is allowable.

Example 1: Cost of flyers, brochures, newspaper, radio and television advertisements for the annual ComUniversity Night event would not be charged to a federal account because these items promote the University and do not meet the exception criteria.

Example 2: Newspaper advertisements for subjects needed for a research project that were proposed and approved in the award from the sponsor would be an allowable cost.

2. Alcoholic Beverages

Rule: The costs of any alcoholic beverages (even when they are otherwise acceptable University hosting costs) must be excluded from charges to federal awards.

Exceptions: None.

Comment: A good practice for the University traveler or host is to ask for a separate restaurant or catering bill that isolates and identifies the costs of alcoholic beverages if the other food costs may be charged to a federal award.

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Example: A department chair asks a faculty member to take a distinguished visitor to dinner and tells the faculty member that the dinner may be charged to the department. The next day the faculty member gives the department secretary a single credit card receipt and requests a reimbursement. The faculty member indicates that they had wine with dinner, but can't remember what portion of the bill is attributable to alcohol. How should the secretary handle this situation? The cost of the entire meal (with appropriate approvals) should be charged against a non-federal departmental account. Unless a federal award specifically allows for hospitality charges, they cannot be charged to the award. If the award did allow for hospitality charges, the amount spent for alcoholic beverages, if identifiable, should still be charged to the departmental account, as there are no exceptions to this rule. If the amount for alcohol cannot be separately identified, the entire charge should be charged to the non-federal departmental account.

3. Alumni Activities

Rule: All departmental costs in support of alumni activities must be excluded from federal awards. If various object codes are used for this type of activity such as salary, travel, or materials and supplies, the entire account should be considered as unallowable in the sponsored research accounting system.

Exceptions: None.

Comment: Alumni activities would include, for example, the preparation of alumni newsletters or the maintenance of alumni mailing lists. These expenses should be charged to non-federal university accounts.

Example: A departmental newsletter is sent to community members in addition to alumni. Should all costs associated with the newsletter preparation be separately identified? Yes. A newsletter to alumni is an alumni activity, the costs of which must be excluded. A newsletter distributed to others would, by virtue of specific language in the federal regulations, be considered *advertising* or *public relations* and would need to be excluded unless it pertained specifically and exclusively to the accomplishments of federally-sponsored agreements. If the newsletter asks for contributions/donations, the costs should be excluded because it is *fund raising*. The prudent course of action is to separately identify all alumni newsletter costs by charging them to non-federal university accounts.

4. Commencement and Convocation

Rule: The costs associated with graduation ceremonies are recorded in separate accounts and coded as student services administration. These costs are unallowable as direct charges to federal awards.

Exceptions: Graduation costs are allowable as indirect costs attributable to the instruction function indirect cost rate. They must be correctly recorded in accounts coded as student services administration.

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5. Contingency Provisions

Rule: Contingency reserves made for events that cannot be foretold with certainty as to time, intensity, or with an assurance of their happening are unallowable as direct costs to federal awards.

Exceptions: None.

Example: A contingency fund is established for a pending lawsuit with an unknown outcome. The cost of this fund cannot be charged to a federally sponsored project.

6. Donations and Contributions to the University

Rule: Donations of services and property to the University may not be charged directly or indirectly to sponsored agreements.

Exceptions: These donations would be allowable to meet cost sharing and matching requirements. Depreciation or use allowances on donated assets are permitted in the F&A cost proposal.

Example: Professor Q has received 45 rolls of donated film to be used in a federal grant. The value of the film can be documented via a memo and counted as cost share. Professor Q should also contact the WMU Foundation to ensure proper recognition of the gift-in-kind to the donor.

7. Charitable Donations or Other Contributions made by the University

Rule: It is unallowable for University services, property, or funds to be donated by University employees.

Exceptions: The University distributes coffee mugs and tee shirts as part of a university-sponsored event such as Graduate Student Appreciation week.

Example 1: Professor Q wishes to give a graduating student a copy of a book purchased with University funds. This is unallowable because purchase of any and all gifts with University funds is strictly disallowed by State regulations. Professor Q may purchase the book as a gift with personal funds.

Example 2: Professor X wishes to use some of the discretionary gift funds donated to support research in cancer to make a contribution to the American Cancer Society. This is unallowable because gift funds are University funds and all gifts with University funds are strictly disallowed by State regulations. Professor X may donate to the American Cancer Society with personal funds.

8. Entertainment

Rule: Costs of entertainment including amusement, diversion, and social activities are unallowable charges to federal and other university activities. Examples: tickets to shows, sporting events, social clubs, concerts, or parties.

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Exceptions: If a meeting must occur over the lunch hour or the luncheon has a business purpose, costs for this meal (excluding alcoholic beverages) are allowable. Also, certain university employees' job duties may require them to incur certain entertainment costs. Their accounts are coded as unallowable for F&A cost purposes.

Comment: Costs that are directly associated with an unallowable cost are also unallowable.

Example 1: Funding for a reception specifically authorized by a sponsor to acknowledge research achievements is allowable subject to WMU policy and procedures. (Alcoholic beverages are excluded.)

Example 2: A University employee travels for the purpose of entertaining important WMU alumni. The cost of his travel (directly associated cost) would be unallowable along with the actual entertainment costs.

Example 3: A department acts as host to a WMU basketball game for several distinguished alumni. This entertainment cost is not an allowable charge to federally funded awards.

9. Equipment and Capital Expenditures

Rule: Capital expenditures for equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the sponsoring agency.

Exceptions: Awards incorporating expanded authorities and/or Federal Demonstration Partnership general provisions allow institutional approval of equipment. However, institutional approval of general-purpose equipment will only be given in unusual circumstances.

Definitions:

- A. Equipment means an article of non-expendable, tangible personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more. Software is NOT considered equipment.
- B. General-purpose equipment means equipment, the use of which is not limited only to research, scientific or other technical activities. Examples of general-purpose equipment include office equipment and furnishings, air conditioning equipment, reproduction and printing equipment, motor vehicles, and computers that are used for general purposes and are not specifically dedicated to projects.

Example: A principal investigator needs to charge a piece of scientific equipment to a federal award covered by the expanded authorities. If the equipment is project specific, necessary for the purpose of the award, and is normally allowed by the sponsor, the vice president for research may approve this purchase.

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10. Fines and Penalties

Rule: Fines and penalties resulting from violations of or failure to comply with federal, state, local, or foreign laws and regulations are unallowable as direct costs to federal awards.

Exceptions: Fines and penalties are allowable as direct costs to awards only when incurred as a result of compliance with specific provisions of the sponsored agreement.

11. Fund Raising

Rule: 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. These costs should be charged to non-federal accounts using the appropriate object code.

Exceptions: Costs associated with identifying funding sources for sponsored programs need not be separately identified.

Comments: If a unit engages in considerable fund raising activities, a separate non-federal, non-research related fund raising account should be established to properly handle these expenses.

Example: A college conducts a fundraising campaign to raise money for a building addition. Campaign expenses include salaries, advertising, phone charges, etc. Since this is a considerable fund raising activity, an account should be set up to separately identify these costs.

12. Goods or Services for personal use

Rule: Costs of goods or services for personal use of the University's employees are unallowable regardless of whether the costs are reported as taxable income to the employees.

Exceptions: None.

Example: A University-furnished automobile is used to travel to recruit students or employees. Employee Z also uses this automobile for commuting. The portion for personal commuting is an unallowable expense.

13. Interest

Rule: Costs incurred for interest on borrowed capital are unallowable as direct charges to federally sponsored projects.

Exceptions: Interest paid to an independent external party is allowable where associated with the purchase of buildings, remodeling, or equipment costing more than \$10,000 and agreed to by the federal government.

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Example: A bank provides five years of financing to acquire a \$15,000 piece of equipment. The interest paid to the bank is an allowable expense if agreed to by the federal government.

14. Legal Costs

Rule: Legal and other costs associated with certain court actions and administrative proceedings are unallowable.

Exceptions: None.

15. Lobbying

Rule: Attempts to influence the outcome of federal, state or local elections, referendums, initiatives or other actions are unallowable. Contact the Vice President for Research for expert advice on this matter.

Exceptions: Technical and factual presentations to legislative bodies on topics directly related to sponsored agreements in response to a sponsor's documented request and activities specifically authorized by statute are allowable.

Comments: Both salary and non-salary expenses fall under this restriction. Normal grant administrative activities are not considered lobbying.

Example 1: A department arranges for top legislative aides to a particular member of Congress to visit their research program. The intent is to convince the member to support the appropriation of funds to a particular area of research. What are the constraints on how the expenses of such a visit should be handled? University policy allows the payment of transportation, lodging, meals, and other expenses incurred by visitors (or by University staff on their behalf) when the visitors "are considered to have rendered or may render a service to the University." But since the intent of this visit is "lobbying," the costs should be separately identified by putting them in a separate lobbying account.

Example 2: A professor receives a written request from the state legislature to present his opinion on an EPA issue during the legislative session. His salary and travel costs do not need to be separately identified from other University costs since this is an allowable expense because it meets the exception to the rule. This would be allowable as a direct charge to a federal project only if included in the award document or approval is obtained from the sponsor.

16. Memberships, Subscriptions, and Professional Activities

Rule: Memberships in country clubs, social or dining clubs, or community or civic organizations are unallowable.

Exceptions: Memberships in business, technical and professional organizations, and subscriptions to business, professional, and technical periodicals are allowable. These costs are normally treated as indirect costs. They are permitted as direct costs only in exceptional circumstances and with written approval from the sponsoring agency.

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17. Official Functions

Rule: Meals and hospitality expenses associated with hosting must be separately identified. Official function expenses should be charged to non-federal accounts unless the sponsor has specifically approved these activities in the award document.

Comment: University units may recognize such events as retirements, births, deaths, and individual achievements. However, because such activities may raise questions of propriety as well as taxability, University policy requires that these activities be carefully considered, properly approved, and well documented. These costs are unallowable charges to federal programs.

Example 1: An academic department has a reception for faculty, staff, and students with the appropriate prior approval from the Dean, Vice President or their designated authority. The charges should be charged to an appropriate non-federal account.

Example 2: As part of a faculty recruitment effort, a department chair asks a faculty member to have dinner with a candidate. What are the rules for handling such expenses? Meals attended by both WMU employees and recruits as part of the recruiting process are allowable recruiting costs. See Recruiting below.

18. Overruns on Sponsored Agreements

Rule: Overruns on sponsored agreements may not be charged to any other sponsored award. Proper handling of these overruns will require coordination between the departments and the Grants and Contracts Office.

Exceptions: None.

Example: A PI has several accounts from various federal sponsors for different research projects. He has exceeded his budget in one of the projects, but has available budget in another. Is it allowable to charge the over expenditure on one account to the project with available funding? No. Unless the charges to be moved would also be allowable charges to the second project, over-expenditures cannot be moved to another project merely because there is funding available in that project.

19. Pre-agreement Costs

Rule: Costs occurring before the start date of an award may not be charged to the award unless approved by the sponsoring agency.

Exceptions: Awards incorporating expanded authorities and/or Federal Demonstration Partnership general provisions allow institutional approval of pre-agreement expenditures that are within 90 days of the award start date.

Example: Agency Q advises that an award covered by expanded authorities will be issued with a September 1 start date. Employee B desires to place approved equipment orders so that equipment will be on hand at the start date. A request for a backstopped cost center should be processed through the Grants and

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Contracts Office and expenditures may commence 90 days prior to the start date.

20. **Promotional Items**

Rule: Promotional items or memorabilia such as mugs and hats that bear the WMU logo or departmental symbol, etc., are unallowable as a direct charge to sponsored agreements.

Exceptions: None.

Example: A PI wishes to give WMU coffee mugs to visitors touring the research lab. Is the cost of the mugs an allowable expense? No. These costs should be charged to a non-federal department cost center.

21. **Proposal Costs**

Rule: The costs of preparing a new proposal for submission to a sponsor, such as PI salary, clerical salary, copying, etc. are unallowable as a direct charge to a sponsored agreement.

Exceptions: Costs related to proposal preparation requesting funding and reporting technical progress of an ongoing project may be charged as a direct cost. These costs may include principal investigator time, technical graphics preparation, photocopying, etc. They may not include routine administrative/clerical effort.

Example: For a new project with the USDA, a PI spends 20 hours writing the technical portion of the proposal and \$25 for color copies. After the award is received, the PI requests that these charges be moved to that award because the charges occurred within 90 days of the start date and the sponsor allows pre-award costs. Is this allowable? No. Even though the sponsor allows pre-award costs, proposal costs are not allowable as a direct charge to a federal research project, except as otherwise noted above.

22. **Public Relations**

Rule: Costs associated with public and community relation's activities must be separately identified unless they pertain to the specific activities of sponsored agreements. *Public relations* means activities dedicated to maintaining the image of the institution. Public relations costs are an unallowable expense and cannot be charged to federal research projects.

Exceptions: Direct charges for communicating with the public and press pertaining to specific activities or accomplishments, which result from the performance of sponsored agreements, are allowable. Conducting general liaison work with the news media and government relation's officers to keep the public informed on University matters is also allowable as an indirect cost.

Comment: Both salary and non-salary expenses would fall under this restriction.

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Example: The cost of WMU's "Research" magazine, which contains research accomplishments and information regarding other areas of public concern, is an allowable F&A cost of the University.

23. Recruiting

Rule: Recruiting advertisements that include color or are excessive in size are considered unallowable.

Reasonable expenditures related to the recruitment of faculty and staff, including graduate student research assistants are allowable and do not need to be separately identified. Reasonable recruiting costs include: travel costs of employees while engaged in recruiting personnel, travel costs of applicants for interviews for prospective employment. Relocation costs are also permissible subject to WMU's relocation policy.

Example 1: As part of an interview, a meal is attended by both WMU employees and recruits. These meal charges are permissible.

Example 2: A department prints an annual departmental brochure profiling the research activities of the faculty. This brochure is used primarily for graduate student recruitment and secondarily for faculty recruitment. Should the cost of the brochure be separately identified? No. If the brochure is not color or unusually large, it would be an allowable F&A cost.

24. Travel

Rule: Airfare costs in excess of the lowest available commercial discount airfare, Federal Government contract airfare (where authorized and available), or customary standard (coach or equivalent) airfare, are unallowable. Fares that are reasonable and consistent with WMU's travel policy are allowable.

Exceptions: Airfare costs in excess of the lowest available discount fare are allowable when the lowest available fare would cause:

- circuitous routing,
- travel during unreasonable hours,
- excessively prolonged travel,
- greatly increased duration of flight,
- increase in other travel costs greater than the transportation savings, or
- accommodations are not reasonably adequate for the medical needs of the traveler.

Example: Employee X purchases first-class airfare for an upcoming trip stating that this need was based on the length of the trip and personal comfort. Airfare costs in excess of the lowest available discount fare are unallowable.

OTHER FEDERAL UNREIMBURSABLE COSTS

25. Bad Debt and Related Legal Fees

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Rule: Actual or estimated losses from uncollectable accounts, related collection costs, and related legal costs are unallowable costs to federal awards. These are never recorded as direct charges to sponsored agreements and must also be separately identified and excluded from F&A cost pool calculations. The bad debt collections costs are recorded in a separate account and the account is coded as unallowable

Exceptions: None.

26. Trustee Travel and Subsistence Costs

Rule: Expenses incurred by university trustees for their travel and subsistence costs are never allowable charges regardless of the purpose of the trip. These are never recorded as direct charges to sponsored agreements and must also be separately identified and excluded from F&A cost pool calculations.

Exceptions: None.

Sources of Federal Guidelines

- **Code of Federal Regulations Title 2: Grants and Agreements Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.**

<http://www.ecfr.gov/>

Sources of Other Pertinent University Policies

- [WMU Federal Costing Principles Policy](#)