



THE GEORGE
WASHINGTON
UNIVERSITY
WASHINGTON DC

Responsible University Official:
Vice President for Research
Responsible Office: Office of the
Vice President for Research
Origination Date: January 1, 1973

IDENTIFICATION AND TREATMENT OF UNALLOWABLE COSTS

Policy Statement

[Office of Management and Budget Circular A-21](#), Cost Principles for Educational Institutions, (OMB A-21) identifies costs that shall not be charged to federally-sponsored projects (including federal flow-through projects). These costs are termed “unallowable” costs. GW personnel who are responsible for administering federally funded agreements should be familiar with the categories of costs that are generally unallowable.

Reason for Policy/Purpose

This policy implements and makes the University community aware of the cost accounting standards established for educational institutions in the [OMB A-21](#).

Who Needs to Know This Policy

Faculty and Staff associated with federal research

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Policy/Procedures

This policy applies to all sponsored agreements at the University; however, costs identified as “unallowable” on federally-funded projects may be directly charged to a non-federal project if permitted by both University policy and the non-federal sponsor’s agreement.

The University is required to follow the directives of [OMB A-21](#) in charging project costs to federally-funded grants and contracts (federally-sponsored agreements). The Circular requires the University to identify unallowable costs and exclude them from any application, proposal, billing, or claim related to a federally-sponsored agreement. [OMB A-21](#) provides principles for determining the costs applicable to research and other work performed by the University under sponsored agreements funded by the federal government. In addition, Federal Cost Accounting Standard (CAS) 505 establishes guidelines for identifying and accounting for the unallowable costs as defined in [OMB A-21](#). The Circular provides general standards to identify allowable costs that can be charged to a sponsored agreement. Allowable costs must be reasonable, be allocable (identifiable) to a specific sponsored agreement, be treated consistently with similar costs, and conform to the limitations set forth in [OMB A-21](#) or the sponsored agreement itself.

[OMB A-21](#) also identifies unallowable costs. These unallowable costs are listed and described in Appendix B of this policy. They must be charged to specific expense accounts in the University’s accounting system so that they can be easily distinguished from allowable costs charged to the sponsored agreement. The accounts listed in Appendix A and the unallowable costs listed in Appendix B of this policy must be excluded from any proposal, billing, or claim filed under any federally-funded agreement.

Section J of [OMB A-21](#) provides standards to be applied in establishing both allowable and unallowable costs. These standards apply regardless of whether a particular cost is treated as a direct cost or an indirect cost.

Allowable Costs

In addition to meeting the specific standards for allowability under Section J of [OMB A-21](#), costs must meet certain general criteria to be allowable. Under Section C.2 of [OMB A-21](#), an allowable cost must: (a) Be reasonable; (b) be allocable to sponsored agreements; (c) be treated consistently through application of those generally accepted accounting principles appropriate to the circumstances; and (d) conform to any limitations or exclusions set forth in [OMB A-21](#) or in the sponsored agreement as to types or amounts of cost items.

Reasonable Cost Test: A cost may be considered reasonable if the nature and amount of the cost reflect actions that a prudent person would have taken under circumstances prevailing at the time. Among other factors, a reasonable cost is one generally recognized

as necessary for the operation of the institution or the performance of the sponsored agreement, and is consistent with established institutional policies and practices applicable to the work of the institution generally, including sponsored agreements.

Allocable Cost Test: Among other factors, a cost is allocable to a sponsored agreement if: (1) It is incurred solely to advance the work under the sponsored agreement; (2) it benefits both the sponsored agreement and other work of the institution in proportions that can be approximated through the use of reasonable methods; or (3) it is necessary to the overall operation of the institution and, in light of the principles provided in A-21, is deemed to be assignable in part to sponsored projects.

Unallowable Costs

In accordance with CAS 505, an unallowable cost is defined as any cost which, under the provisions of any pertinent law, regulation, or sponsored agreement cannot be included in prices, cost reimbursements, or settlements under the federally-sponsored agreement to which it is allocable. A cost may be either expressly unallowable or directly associated with unallowable activities (e.g. All costs associated with Office of Alumni Relations).

“Expressly unallowable” applies to any type of cost which, under the express provisions of an applicable law, regulation, or sponsored agreement is specifically named and stated to be unallowable. Section J of [OMB A-21](#) establishes the allowability of selected costs. Appendix B of this policy statement lists and briefly describes the costs specifically deemed unallowable in Section J.

GW Reimbursement Policy and Federal Regulations

A cost determined to be appropriate under University policies to be incurred directly or reimbursed may be unallowable as a direct or indirect charge to a federally or non-federally sponsored agreement. While the federal government or non-federal sponsor will not reimburse these costs, they may be entirely appropriate and permissible University activities or costs. For example, if personal funds are used to purchase an otherwise allowable item under a federally-sponsored agreement, the cost of the item would be an allowable charge. However, because the University is a tax exempt entity and [OMB A-21](#) states that taxes subject to exemption are unallowable, the sales tax paid by the individual would not be allowable (see Appendix B). In this situation, the cost of the item minus the sales tax could be charged to the sponsored agreement but the sales tax would be charged to the home department.

Applicability and Responsibility

Principal Investigators, Department Chairs, and personnel with fiscal responsibility for the colleges, schools, divisions, and departments must identify and properly charge all unallowable sponsored project costs to the correct (non-federal) expense account or organization.

Website Address for This Policy

[GW University Policies](#)

Contacts

Subject	Contact	Telephone
Allowable and unallowable costs	Office of the Vice President for Research	(202) 994-6255

Appendices

Appendix A **Unallowable Expense Account Codes**

Appendix B **Examples of Unallowable Costs in Section J. of Circular A-21**

Who Approved This Policy

Leo M. Chalupa, Vice President for Research
Louis H. Katz, Executive Vice President and Treasurer
Donald R. Lehman, Executive Vice President for Academic Affairs
Beth Nolan, Senior Vice President and General Counsel
John F. Williams, Provost and Vice President for Health Affairs

History/Revision Dates

Origination Date: January 1, 1973
Last Amended Date: October 24, 2008
Next Review Date: November 1, 2010

Appendix A

Unallowable Expense Account Codes

The following expense account codes relate to federally unallowable costs and must always be used to facilitate compliance with federal regulations:

Description and account number

Advertising	55151
Bad Debt Expense	53911
Collection Fees	55552
Diplomas, Caps and Gowns	54551
Entertainment	52611
Fines, Fees, and Penalties	52442
GW Advertising	59523
Lobbying	52616
Metro Area Alumni Activities	52722
Officer's Life Insurance	51861
Over/Short Inventory	54191
Prizes and Awards	57121
Publicity & Promotion	55152
Purchases for Resale	54611
Special Events/Business Relations	52612
Uncollected Returned Checks	52422

The following expense account code should be used when the cost in question is unallowable per Attachment B but is not covered by a specific account code above:

Other Unallowable Costs	52614
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Appendix B

Examples of Unallowable Costs in Section J. of Circular A-21

The following costs are generally unallowable on federal awards except as noted. Section J. of [OMB A-21](#) should be consulted for more detailed explanations and guidelines.

1. Section J.1 Advertising And Public Relations Costs

The only allowable advertising costs that may be charged by academic and research units are those which are solely for: (1) the recruitment of personnel required for the performance by GW of obligations arising under the sponsored agreement; (2) the procurement of goods and services for the performance of the sponsored agreement; (3) the disposal of scrap or surplus materials acquired in the performance of the sponsored agreement; or (4) other specific purposes necessary to meet the requirements of the sponsored agreement.

The only allowable public relations costs are those (1) specifically required by a sponsored agreement, (2) costs of communicating with the public and press pertaining to specific activities or accomplishments under sponsored agreements (these costs are considered necessary as part of the outreach effort for the sponsored agreement), and (3) costs of general liaison with news media and government public relations officers.

2. Section J.3 Alcoholic Beverages

Costs of alcoholic beverages are unallowable.

3. Section J.4 Alumni/ae Activities

Costs incurred for, or in support of, alumni/ae activities and similar services are unallowable.

4. Section J.6 Bad Debt

Bad debt, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collections costs, and related legal costs are unallowable.

5. Section J.8 Commencement and Convocation

Costs incurred for commencements and convocations are unallowable.

6. Section J.10.g Institution-furnished Automobiles

That portion of the cost of institution-furnished automobiles that relates to personal use by employees (including transportation to and from work) is unallowable.

7. Section J.11 Contingency Provisions

Contributions to a reserve or any similar provision made for events, the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of happening are unallowable.

8. Section J.15 Donations and Contributions

The value of services and property donated to the University is not allowable for reimbursement either as a direct or F&A cost, but may be used to meet cost sharing requirements.

Donations or contributions made by the University, regardless of the recipient, are unallowable.

9. Section J.17 Entertainment Costs

Costs of entertainment, including amusement, diversion, social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.

10. Section J.19 Fines and Penalties

Costs resulting from violations of, or failure to comply with, Federal, State, and local or foreign laws and regulations are unallowable.

11. Section J.20 Fund Raising and Investment Costs

Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are unallowable.

Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unallowable.

12. Section J.22 Goods or Services for Personal Use

Costs 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 employee.

13. Section J.23 Housing and Personal Living Expenses of University Officers

Costs of housing (e.g., depreciation, maintenance, utilities, furnishings, rent, etc.), housing allowances and personal living expenses for/of the institution's officers are unallowable.

14. Section J.24 Idle Facilities and Idle Capacity

The costs of idle facilities are unallowable except to the extent that 1) they are necessary to meet fluctuations in workload, or 2) they were necessary when acquired and are now idle because of changes in program requirements, efforts to achieve more economical operations, reorganization, termination, or other causes which could not have been reasonably foreseen. Under these exceptions, the cost of idle facilities is allowable for a reasonable period of time, ordinarily not to exceed one year.

15. Section J.25.d Insurance and Indemnification – Losses

Actual losses which could have been covered by permissible insurance (or self-insurance) are unallowable. Losses not covered under existing deductible clauses for insurance coverage provided in keeping with sound management practice as well as minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools which occur in the ordinary course of operations, are allowable.

16. Section J.26 Interest

Interest costs are generally unallowable, except for certain interest expenses paid to an external party to acquire equipment costing \$10,000 or more or to construct/acquire/renovate buildings, where such assets are used in support of sponsored agreements.

17. Section J.28 Lobbying

Costs associated with lobbying activities are generally unallowable.

Costs incurred in attempting to improperly influence either directly or 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 are unallowable.

18. Section J.29 Losses on Other Sponsored Agreements or Contracts

Any excess of costs over income under any other sponsored agreement or contract of any nature is unallowable. This includes, but is not limited to, the institution's

contributed portion by reason of cost-sharing agreements or any under recoveries through negotiation of flat amounts for F&A costs.

19. Section J.33 Memberships, Subscription and Professional Activity Costs

Costs of membership in any civic or community organization as well as costs of membership in any country club or social or dining club or organization are unallowable.

20. Section J.36 Preagreement Costs

Costs incurred prior to the effective date of the sponsored agreement, whether or not they would have been allowable if incurred after such date, are unallowable unless approved by the sponsoring agency.

21. Section J.46 Selling and Marketing

Costs of selling and marketing any products or services of the institution are unallowable.

22. Section J.48 Student Activity Costs

Costs incurred for intramural activities, student publications, student clubs, and other student activities are unallowable.

23. Section J.49 Taxes

Taxes from which exemptions are available to the institution directly or which are available to the institution based on an exemption afforded the Federal Government, and in the latter case when the sponsoring agency makes available the necessary exemption certificates are unallowable.

24. Section J.53 Travel Costs

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 except when such accommodations would: require circuitous routing; require travel during unreasonable hours; excessively prolong travel; greatly increase the duration of the flight; result in increased costs that would offset transportation savings; or offer accommodations not reasonably adequate for the medical needs of the traveler.