

Procedure 1305 PR.04

Unallowable Costs

Revision Date: 2/7/07

Who Must Apply Federal Costing Regulations

The following University entities must apply the federal costing regulations contained in the Office of Management and Budget's (OMB) Circular A-21 for classifying their expenses:

- schools and departments that have federal awards; and
- departments that charge for goods or services, or are included in the Facilities and Administrative (F&A) cost rate calculation, such as administrative departments, facility departments, computing departments, the library system, the health service, and other service departments or internal service providers.

Unallowable Costs: Overview

The primary document containing federal costing regulations for universities is [OMB Circular A-21, Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions](#).

Payments under most federal awards to educational institutions are on a cost reimbursement basis. This applies to indirect (F&A) costs such as administration, support, facilities and services, as well as costs charged directly to sponsored projects.

OMB Circular A-21 describes the costs that are normally allowable for reimbursement under federal awards (allowable costs), and the costs that are not normally eligible for reimbursement (unallowable costs). Costs under a federally sponsored award consist of the allowable direct costs incident to its performance, plus the allocable portion of the allowable F&A costs.

Under federal regulations, unallowable costs cannot be charged to federal awards and must be charged to cost expenditure types that are not included in the F&A rate calculation.

Individuals who assign expenditure type codes to transactions must assign unallowable costs to appropriate unallowable cost expenditure types. See sections "Other Unallowable Costs" and "Additional Unallowable Cost Expenditure Types" below.

For assistance, contact Tom Jackson, Manager of Cost Analysis, x2-3072, thomas.jackson@yale.edu.

Year-End Closing

Unallowable costs at fiscal year end that are not identified with the correct unallowable cost expenditure type must be reclassified. This action must be completed by the first close of the June period. (Contact the Controller's office for the current year-end closing schedule.)

Travel

Refer to Section J.53c of [OMB Circular A-21](#) regarding commercial air travel. This section requires the use of the lowest available airfare with certain exceptions.

Policy 3301: Travel on University Business requires use of the lowest available airfare. For first-class transportation, upgrades, frequent flyer miles, charter flights, or international travel, see Sections 3301.1 and 3301.9 for more information on classes of air service, certain restrictions, and required approvals.

- Under OMB Circular A-21 J.53c:

Airfare costs in excess of the customary standard commercial airfare (coach or equivalent), Federal Government contract airfare (where authorized and available), or the lowest commercial discount airfare are unallowable except when such accommodations would:

- (a) require circuitous routing;
- (b) require travel during unreasonable hours;
- (c) excessively prolong travel;
- (d) result in additional costs that would offset the transportation savings; or
- (e) offer accommodations not reasonably adequate for the traveler's medical needs. The institution must justify and document these conditions on a case-by-case basis in order for the use of first-class airfare to be allowable in such cases.

Note: Review [Guide 3301 GD.02](#) regarding the requirements of the Fly America Act and its applicable to federal awards and related cost sharing funds supporting these awards.

- This justification and documentation needs to be indicated on and/or attached to the Employee Reimbursement [Form](#).

Travelers are encouraged to use the University's preferred travel supplier [orbitzforbusiness](#) by contacting them directly. Travelers and arrangers will be able to take advantage of a complete offering of travel options and discounts; including University negotiated rates and low service fees. If this preferred travel supplier is not used or the lowest available airfare is not obtained, the department will be responsible for substantiating compliance with the federal regulations.

Use expenditure type **876000** for unallowable travel costs.

Business Meals and Alcoholic Beverages

Business meals, except for alcoholic beverages, are considered allowable costs if they comply with [Policy 3302](#): Business Meals, Entertainment, and Other Social Events. Charge such allowable business meals to expenditure type **874000**.

Alcoholic beverages are not allowable. Costs of alcoholic beverages **cannot** be charged to 874000. Separate any alcoholic beverage costs and charge them to **873000** Enter & Alcohol (Alcohol and Entertainment).

Expenditure types **832500** Catering/Meals, **820800** Food & Beverage, and 873000 Enter & Alcohol are considered unallowable costs.

- If an invoice to be charged to expenditure type 832500 or 820800 includes alcoholic beverages, do not split the charges because both of these expenditure types are considered unallowable.

Other Unallowable Costs

Expenditure type **911100** Other Unallowable Costs is for unallowable costs that cannot be appropriately charged to specific unallowable expenditure types.

- The cost of flowers is considered unallowable and is to be charged to 911100.
- Printing is sometimes for purposes that are unallowable and, in such cases, is to be charged to 911100.

Unallowable Activities

Certain activities are unallowable both as direct or F&A costs under OMB Circular A-21, such as alumni activities, investment activities, commencement activities, and fund-raising activities.

Most employees in schools and departments are not involved in these "unallowable" activities. However, for employees who are, such costs can be charged to the appropriate expenditure type for unallowable salaries and wages.

If a department is involved in "unallowable" activities, the department should establish a separate organization number to account for these activities. If this approach is used, the department must advise the Manager of Cost Analysis in writing (e-mail: thomas.jackson@yale.edu) so that such costs are treated as unallowable and deducted as part of the calculation of the F&A cost rate.

Additional Unallowable Cost Expenditure Types

Commonly used Unallowable Cost Expenditure Types that are not specifically addressed above include:

| Expenditure Type | Expenditure Type Name |
|------------------|--|
| 712300 | Faculty Salaries—Unallowable |
| 724500 | Staff—Unallowable |
| 831700 | YSM Supplemental Telecom Charge |
| 832300 | Services--Student |
| 833300 | Advertising, Publicity, and Public Relations |
| 850300 | Rare Books |
| 8506xx | Manuscripts |
| 850900 | Art and Museum Acquisitions |
| 894000 | Professional Fees--Unallowable |
| 910200 | Losses |
| 910300 | Materials for Resale |
| 910700 | Prizes & Awards |
| 911000 | Commissions |
| 911200 | Subsidies |
| 911500 | Investment Fees |
| 911800 | Parking Tickets |
| 915200 | Dues & Membership--Unallowable |

OMB Circular A-21 Section J: General Provisions for Selected Items of Cost

OMB Circular A-21 provides principles to be applied in establishing the allowability of certain items involved in determining cost. These principles should apply irrespective of whether a particular item of cost is properly treated as direct cost or F&A cost. Failure of OMB to mention a particular item of cost is not intended to imply that it is either allowable or unallowable; rather, determination as to allowability in each case should be based on the treatment provided for similar or related items of cost. In case of a discrepancy between the provisions of a specific sponsored agreement and the list below, the agreement would govern. Click [here](#) to review the definition of each cost item and its applicability.

| A-21 Section | Cost Item |
|--------------|---|
| J.1 | <i>Advertising and Public Relations Costs</i> |
| J.2 | <i>Advisory councils</i> |
| J.3 | <i>Alcoholic beverages</i> |
| J.4 | <i>Alumni/ae activities</i> |
| J.5 | <i>Audit costs and related services</i> |
| J.6 | <i>Bad debt</i> |
| J.7 | <i>Bonding costs</i> |
| J.8 | <i>Commencement and convocation costs</i> |
| J.9 | <i>Communication costs</i> |
| J.10 | <i>Compensation for personal services</i> |
| J.11 | <i>Contingency provisions</i> |
| J.12 | <i>Deans of faculty and graduate schools</i> |
| J.13 | <i>Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringement</i> |
| J.14 | <i>Depreciation and use allowances</i> |

| | |
|------|---|
| J.15 | <i>Donations and contributions</i> |
| J.16 | <i>Employee morale, health, and welfare costs and costs [sic]</i> |
| J.17 | <i>Entertainment costs</i> |
| J.18 | <i>Equipment and other capital expenditures</i> |
| J.19 | <i>Fines and penalties</i> |
| J.20 | <i>Fund raising and investment costs</i> |
| J.21 | <i>Gain and losses on depreciable assets</i> |
| J.22 | <i>Goods or services for personal use</i> |
| J.23 | <i>Housing and personal living expenses</i> |
| J.24 | <i>Idle facilities and idle capacity</i> |
| J.25 | <i>Insurance and indemnification</i> |
| J.26 | <i>Interest</i> |
| J.27 | <i>Labor relations costs</i> |
| J.28 | <i>Lobbying</i> |
| J.29 | <i>Losses on other sponsored agreements or contracts</i> |
| J.30 | <i>Maintenance and repair costs</i> |
| J.31 | <i>Material and supplies costs</i> |
| J.32 | <i>Meetings and Conferences</i> |
| J.33 | <i>Memberships, subscriptions and professional activity costs</i> |
| J.34 | <i>Patent costs</i> |
| J.35 | <i>Plant and homeland security costs</i> |
| J.36 | <i>Preagreement costs</i> |
| J.37 | <i>Professional service costs</i> |
| J.38 | <i>Proposal costs</i> |
| J.39 | <i>Publication and printing costs</i> |
| J.40 | <i>Rearrangement and alteration costs</i> |
| J.41 | <i>Reconversion costs</i> |
| J.42 | <i>Recruiting costs</i> |
| J.43 | <i>Rental costs of buildings and equipment</i> |
| J.44 | <i>Royalties and other costs for use of patents</i> |
| J.45 | <i>Scholarships and student aid costs</i> |
| J.46 | <i>Selling and marketing</i> |
| J.47 | <i>Specialized service facilities</i> |
| J.48 | <i>Student activity costs</i> |
| J.49 | <i>Taxes</i> |
| J.50 | <i>Termination costs applicable to sponsored agreements</i> |
| J.51 | <i>Training costs</i> |
| J.52 | <i>Transportation costs</i> |
| J.53 | <i>Travel costs</i> |
| J.54 | <i>Trustees</i> |

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