

Allowable and Unallowable Costs for Research Projects

Office of Management and Budget Circular A-21 established the principles for determining costs applicable to grants, contracts and other agreements with educational institutions. The principles are designed to provide that the federal government bear its fair share of the total cost, determined in accordance with generally accepted accounting principles, except where restricted or prohibited by law. The basic considerations for determining the allowability of costs are:

1. Costs must be **reasonable**. This is defined as the action a prudent person would have taken under the circumstances.
2. Costs must be **allocable** to sponsored agreements under the principles and methods described in A-21. Any costs allocable to a particular sponsored agreement may not be shifted to other sponsored agreements to clear an overdraft or for other reasons of convenience.
3. Costs must be given **consistent treatment** through the application of generally accepted accounting principles appropriate to the circumstances.
4. Costs must **conform to any limitations** or exclusions set forth in these principles or in the sponsored agreement as to types or amounts of cost items.

Unallowable Costs on Federal Agreements

Federal regulations identify specific categories of costs that cannot be charged, directly or indirectly, to federally sponsored agreements.

Unallowable Costs	Description, Guidance and Exceptions
Advertising & Public Relations	Purchase of promotional items. Production & distribution of Magazines, newsletters, radio and TV programs, direct mail, exhibits, unless directly related to the performance of a sponsored project. Expenses for employee and subject recruitment are allowable.
Alcoholic Beverages	Alcoholic beverages are unallowable.
Alumni/ea activities	Costs incurred for, or in support of alumni/ae activities and similar services are unallowable.
Bad Debts	Any losses, weather actual or estimated, arising from uncollectible accounts and other claims, related collection costs and related legal costs, are unallowable
Commencement and Convocation Costs	All costs related to commencement and convocation are unallowable.
Contingency Provisions	Contributions to a contingency 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 their happening, are unallowable.
Directly Associated Unallowable Costs	Costs that are directly associated with the unallowable costs are also unallowable. A directly associated cost is defined in Federal regulations as any cost which is generated solely as a result of the incidence of another cost, and which would not have been incurred had the other cost not been incurred.
Entertainment	Costs of entertainment, including amusement, diversion and 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.

Fines and Penalties	Costs from violations of, or failure of the institution to comply with, federal, state, and local or foreign laws and regulations are unallowable, except when incurred as a result of compliance with specific provisions of the sponsored agreement, or instructions in writing from the authorized official of the sponsoring agency authorizing in advance such payments.
Fund Raising	Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequest, and similar expenses incurred solely to raise capital or obtain contributions, are unallowable.
Goods or Services for Personal Use	Costs of goods for personal use of the institution's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.
Lobbying	Attempts to influence the outcomes of any federal, state or local legislation, initiative or similar activity.
Losses on other sponsored agreements or contracts (costs overruns)	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.
Medical Liability Insurance	Only allowable on research programs to the extent that the research involves human subjects.
Memberships	Membership on any civic or community organization or country club or social or dining club or organization are unallowable, as is membership in business, technical and professional organizations.
Selling and Marketing	Costs of selling and marketing any product or services of the institution are unallowable.
Student Activity Costs	Costs incurred for intramural activities, student publications, students clubs, and other student activities are unallowable, unless specifically provided for in the sponsored agreements.
Pre-agreement Costs	Costs incurred prior to the effective date of the sponsored project, whether or not they would have been allowable there under if incurred after such date, are unallowable unless specifically set forth and identified in the sponsored.
