



Reason for Policy

The Office of Management and Budget (OMB) Uniform Guidance prohibits the University from charging federally funded agreements or requesting federal reimbursement for the following costs that the "UG" refers to as "unallowable costs". The primary document containing federal costing regulations for universities is Office of Management and Budget (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

Policy

The Uniform Administrative Requirements describe the costs that are eligible for reimbursement under federal grants and contracts (allowable costs), and the costs that are not eligible for reimbursement (unallowable costs). Refer to the Cost Principles in Subpart E, §200.400-200.475 of the Uniform Guidance for the full listing of types of costs.

In general, there are three categories of expenses:

- Direct Expenses – These expenses can normally be directly charged to federal awards. However, the terms and conditions of the sponsored award must be reviewed prior to determining the appropriateness of expenses for each individual project.
- Indirect Expenses- Sometimes referred to as facilities and administrative (F&A) costs or overhead, these expenses may not be charged as direct expenses to federal awards unless the costs meet the “unlike purpose and circumstances criteria” further defined in this document.
- Unallowable expenses- These costs may not be charged to a federal award either as a direct charge or indirectly as recovered through the F&A rate.

In addition to following grant-specific guidelines, recipients of grant funding are also expected to comply with established University policies and procedures, which can be found on various pages throughout the University website, depending on the type and nature of the charge.

The following list is a quick reference for some types of unallowable expense. The specific wording in the Uniform Guidance should be referenced for complete wording and more detail:

Alcoholic beverages: Alcoholic beverages are unallowable, including beer, wine, and mixed alcoholic drinks. However, alcohol can be directly charged to a sponsored project if the nature of the research specifically requires the purchase and use of alcohol, and the sponsor explicitly approves the cost.

See also: the University Travel & Business Expense policy requirements for personal & business meals. Alcohol may not be purchased as a part of a grant reimbursable meal.

Computing Devices: Defined as machines used to acquire, store, analyze, process, and publish data and other information electronically, including accessories (or “peripherals”) for printing, transmitting, and receiving or storing electronic information.

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Computing devices that cost less than \$5,000 and are essential and allocable to the performance of an award may be charged directly either as a purchase or a lease. For computing devices costing greater than \$5,000, please see the Capital Equipment Policy. Computing devices are generally expected to be purchased with school and/or departmental accounts and considered a general office item.

Examples of computing devices that can be charged as direct expenses include:

- A laptop specifically needed to record data in field research
- A computer physically attached to another piece of scientific equipment and/or required for collection and analysis of information/data
- A computer used primarily on the designated sponsored award
- A computer that will remain property of the University (and not the personal property of an individual) Computing devices may be allocated to multiple sponsored awards if the project's portion of the use can be reasonably estimated and is directed by the PI. The expense should be properly allocated to all benefitting activities.
- If a device will be used only in part for an award's activities, the award may only be charged a portion of the device expense
- University funded activities such as instruction and administration are expected to bear a fair share of acquisition expense
- De minimus use of the device for other activities is allowed as long as the device is used primarily on the sponsored project(s).

As a reminder, fiscal prudence and common sense should be used if purchasing computing devices on a grant. Devices with costs that exceed industry averages should have adequate justification as to the reason for the expense.

Copier charges and copy cards: Routine copying charges that cannot be identified with specific projects and fall under general administrative support of a project should not be charged as a direct expense. Copying charges may only be an appropriate direct charge in cases when both of the following criteria are met:

- The awarding agency has approved the direct charge in the awarded budget or there is subsequent agency approval. The copy expenses associated with the project are extraordinary and meet the "unlike purpose and circumstance" criteria, **and**
- The copy expenses are an integral part of the specific tasks associated with the sponsored award and can be separately tracked.

Clerical/administrative salaries (including secretarial): Administrative and clerical personnel provide non-technical support services that benefit departmental, institute, center, or school activities. The services of these individuals could include: clerical support, financial management, procurement of materials and services, budget and planning, and personnel management.

The salaries of administrative and clerical personnel are normally treated as an indirect cost unless they meet the definition of "unlike purpose and circumstance" and are integral to the project. As stipulated in the Uniform Guidance, direct charging of administrative salaries is allowable when all of the following 4 conditions are met:

1. Administrative or clerical services are integral to a project or activity;
2. Individuals involved can be specifically identified with the project or activity;

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3. Such expenses are explicitly included in the budget or have the prior written approval of the federal awarding agency; **and**
4. The costs are also not recovered as indirect costs.

Identification of the individual, clear justification about the nature of the duties and their direct relationship to the sponsored work, and a reasonable level of effort commensurate with the scope of the project are very important. Agency approval will be assumed if the salary of administrative or clerical staff is budgeted and not specifically denied in the notice of grant award or in related correspondence from the agency to the University.

Entertainment: Costs of activities where the primary purpose is amusement, diversion or social activities, and any costs directly associated with such costs, such as tickets to shows or sports events, meals, lodging, rentals, transportation, gratuities etc. are unallowable.

Memberships, subscriptions and professional activity costs: Membership and subscription costs must not be directly charged to sponsored agreements, unless unusual circumstances exist. Membership in any civic or community organization, or in any country, social or dining club is always unallowable. Allowable membership costs are for memberships required for conference attendance where the researcher is presenting his or her research or obtaining, circulating, or distributing information to advance the performance of the project. This includes the costs of meals, transportation, rental of facilities, etc. Books, journals, periodicals, and subscriptions are normally paid with indirect costs. Examples of charges include:

- General or reference texts, including medical dictionaries
 - Books, manuals, reprints that generally assist the PI in keeping up with his/her field of research
 - Publications that provide a general benefit to research and teaching activities
 - Subscriptions to journals
- These may be charged as direct expenses only in unusual circumstances. Examples include:
- The book or journal is not available in the library and can be associated specifically with the sponsored award
 - The book or journal is available from the library but is utilized so frequently for a specific award that a library copy is not sufficient
 - A book contains a specific research technique or information that will introduce efficiencies to the research or improve the quality of results

Postage: Costs incurred for freight, express, cartage, postage and other transportation services relating either to goods purchased, in process, or delivered, are allowable. When such costs can readily be identified with the items involved, they may be charged directly as transportation costs or added to the cost of such items. E.g. Routine costs to ship supplies ordered from a vendor are often charged to the supplies code together with the related supply expense.

Outbound freight, if reimbursable under the terms and conditions of the Federal award, should be treated as a direct cost. Outbound postage such as letters or mailings is typically treated as an F&A expense and is not directly chargeable to a project. However, a particular project may have a special need for postage that is clearly different than normal, e.g. the mailing of survey questionnaires is required. As the objectives of the project constitute “unlike circumstances” compared to routine postage requirements, it would be appropriate to charge the project directly for the postage to mail the questionnaires in this case. Other examples of allowable shipping charges include:

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- Shipping specimens to a lab facility for processing
- Shipment of animals for use on a specific project
- Sharing model organisms as required by the terms and conditions on the award
- Shipping research presentation materials for a conference

Telecommunications expense: Basic local telephone services on campus, including phone installation, monthly line charges and internet charges, cellular phones, and pagers should be treated as F&A. Examples of communication expenses that may be charged as a direct cost and meet the “unlike purpose and circumstances” criteria include the following:

- Itemized long distance telephone charges for communication related specifically to an award
- Communication devices used exclusively for conducting surveys
- Telephones used exclusively to manage a multi-site research project
- Dedicated telephone lines set up to receive data feeds from the field or conduct surveys
- Cell phones in remote locations where communication infrastructure is limited

Supplies: Items that are used in the course of multiple activities of project personnel are "office supplies," while those used exclusively in support of the project are considered “ program supplies”. General office supply items include pens, tablets, staples, staplers, post-it notes, tape, file folders, binders, toner cartridges, printers, thumb drives, cleaning materials, wall clocks, calendars, waste cans, paper punches, University stationery, etc. and are difficult to attribute to a specific project, rather they are used for general day-to-day office and work functions, and routinely replenished to keep an office functioning in the day-to-day. These items are also likely to be used for other purposes or not entirely consumed in the course of the project and should not be directly charged to Federal projects.

Program supplies include laboratory supplies, lab materials, printer paper for research data and reports, plotter pens, lab notebooks, and other items that have a more specific function, can be directly associated with a project and will likely be consumed in the course of the project.

When items are purchased to support multiple activities of project personnel (e.g. data notebooks for grad student that may also be used as course notebooks), they may not be directly charged to federal projects. Examples of office supplies that may be charged as direct expenses include:

- Office supplies specifically purchased for a program, project or survey
- Material required for poster or publication preparation (poster board, photographic supplies, color paper for a presentation that is directly attributed to the sponsored project)
- Computing devices *See also:* Computing Devices section

“Unlike Purpose and Circumstances” Criteria

The CAS consistency standard (CAS 502) states that costs must consistently be treated as direct expenses or indirect costs when the costs are incurred for similar purposes and circumstances. Costs normally considered indirect costs – e.g., administrative salaries, postage and express mail, telephone, copier expenses, general office supplies, and space- related costs – may be allowable as direct costs if they meet **all three** of the following criteria:

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1. An unlike circumstance exists in which a sponsored project requires resources beyond those normally expected for a typical research project;
2. The cost can be associated with the specific sponsored project with a high degree of accuracy; **and**
3. The awarding agency has approved the cost, if significant, as a direct expense in the awarded budget. If the expense was not included in the awarded budget, sponsor approval should be obtained prior to expenditure for any significant expense.

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:

A cost should be **real** in the sense that it is an actual cost; that is, it is for goods actually delivered or services actually rendered.

A cost is considered **reasonable** if both the nature of the goods or services acquired or applied and the amount of the cost reflect the action that a prudent person would have taken under the circumstances prevailing at the time of the decision to incur the cost.

A cost is **allocable** to a particular cost objective (i.e. a specific function, project, sponsored agreement, department, etc.) if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received or other equitable relationship.

Other unallowable costs specifically related to indirect cost proposal preparation can be found within the University's Chart of Accounts at and are as follows: Other unallowable costs specifically related to indirect cost proposal preparation can be found within the University's Chart of Accounts at <http://www.luc.edu/finance/chartofaccounts.shtml> and are listed in the following table.

Unallowable Expense Accounts on Federal Grants/Contracts		
Account	Account Description	Account Definitions
5932	Institution-Furnished Automobile	Represents the portion of the costs of inception-furnished automobiles that relates to personal use by employees (including transportation to and from work).
6203	Advertising	Costs associated with advertising that are incurred either internally and allocated to departments or paid to external vendors by the University in an effort to promote University operations
6250	Legal Fees	Costs incurred for legal professional or consulting services provided by groups or individuals who are not University employees, and are compensated in the form of fees based on a contracted or otherwise predetermined amount or rate. These charges include legal fees, retainers and travel expenses related to the contractual services.
6251	Accounting Fees	Costs incurred for accounting professional or consulting services provided by groups or individuals who are not University employees, and are compensated in the form of fees based on a contracted or otherwise predetermined amount or

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		rate.
6320	Entertainment	Any costs directly associated with entertainment, including amusement, diversion, and other social activities. These expenditures are disallowed for federally sponsored Grants & Contracts.
6330	Recruiting Expenses - Students	
6420	Vehicle - Maintenance & Supplies	Costs of maintenance of University vehicles, including supplies purchased in connection with vehicle maintenance.
6421	Vehicle - Fuel Costs	Cost of Fuel related to University Vehicles Note: purchasing gasoline for a rental car while traveling or for a personal vehicle while traveling should not be charged to this code.
6422	Housekeeping	Cost of housekeeping services, including maid and janitorial services.
6428	Gas -- Natural	Costs of natural gas used in the process of University operations.
6429	Electricity	Costs of electricity used in the process of University operations.
6430	Water & Sewer	Costs of water & sewer used in the process of University operations.
6431	Scavenger	Costs of scavenger services (waste disposal, trash and garbage collection) used in the process of University operations.
6432	Taxes	Cost of all real estate taxes or other non-payroll related taxes
6433	Licenses & Permits	Costs of all special permits, such as fire inspections and license fees (including visas) paid to federal, state, county or municipal taxing authorities. These costs will include food, alcohol and operating permits.
6460	Disposal	Cost of demolition and disposal of University assets.
6500	Interest	Payments of interest expense accrued on all bonds, commercial paper, notes, etc. issued by the University.
6509	Bond Issuance Costs	All costs associated with issuance of new bonds.
6510	Credit Card Fees	Fees associated with all credit cards held by the University.
6511	Bank Fees	Cost of all banking service charges and fees.
6520	Fees - Miscellaneous	Any additional fees for which a specific object code has not been provided elsewhere.
6530	Insurance - External Policies	Costs of insurance purchased from external parties that is unrelated to fringe benefits. These insurance types include fire, general liability, property umbrella, malpractice, etc.
6531	Insurance - Self Insurance	Insurance costs incurred by the University that are self-funded. Includes costs incurred for deductibles and excess.
6540	Actuarial Adjustment on Split-Interest Agreements	Annual adjustments to annuities and trust funds held by the University.
6550	Write-offs/Bad Debt	Any losses, whether actual or estimated, resulting from uncollectible accounts receivable.

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6551	Student Loan Cancellations	Costs arising from cancellation of student loans.
6552	Administrative Collection Costs	Any costs resulting from attempts to collect on delinquent accounts, prior to writing them off as uncollectible, including related legal and collection expenses.
6553	Administrative Reimbursement	Reimbursement by University of expenses incurred by its administrative staff while performing work for the University.
6560	Supplies & Expenses - Alumni	Costs incurred in support of alumni activities and similar services.
6740	Donations & Contributions	Donations or contributions made by the institution, including gifts (flowers, computers, gift certificates, etc.) to employees or other individuals or organizations. Gifts to employees made in excess of the IRS limit (currently \$25) are considered compensation and are a taxable benefit to the employee.
6741	Royalties	Cost of royalties payable to faculty members for the privileged use by the University of patents or copyrights, to which the faculty members hold exclusive rights.
6800	Fines & Penalties	Costs resulting from violations of, or failure of the University to comply with, Federal, State, local or foreign laws and regulations. Payment of such fees with sponsored funds is disallowed by most grants, except when incurred as a result of compliance with specific provisions of the sponsored agreement, or explicit written instructions for the sponsoring agency official, authorizing such payments in advance.
6811	Contingency	Funds held in reserve for reallocation to various business units and accounts. This object is for budgetary purposes. Spending out of this object code is not allowed.
6820	Discounts	Accounts Payable account used to track discounts on invoices
6821	Cost Invoice Variance	Accounts Payable account used to track cost invoice variances
7020	Transfers	Used to record transfers of funds between different accounts.
7040	Depreciation/Amortization	Used for writing off the annual portion of deterioration of capitalized equipment, building or land improvements. This charge is based on proration of the asset cost over its estimated life.