

# PITTSBURGH TECHNICAL COLLEGE

## ALLOWABLE AND UNALLOWABLE COSTS

### POLICY AND APPLICATIONS

#### Purpose

To define and identify both allowable and unallowable costs that may be incurred during the administration of federally sponsored projects, and to ensure the administration of proper accounting treatment for such expenses.

#### Applicability

This policy applies to all PTC (PITTSBURGH TECHNICAL COLLEGE) faculty and staff involved in administering federally sponsored awards.

#### Cost Classifications

**Composition of Costs:** The total cost of a federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits.

**Direct Costs:** Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs. Identification with the Federal award rather than the nature of the goods and services involved is the determining factor in distinguishing direct from indirect (F&A) costs of Federal awards. Typical costs charged directly to a federal award are:

- Compensation of employees who work on an award and their related fringe benefit costs
- The costs of materials and other items of expense incurred for the Federal award
- Administrative or clerical services integral to a project or activity and individuals involved can be specifically identified with the project or activity
  - Such costs must be explicitly included in the budget or have the prior written approval of the Federal awarding agency and the costs cannot be recovered also as indirect costs.
- Extraordinary utility consumption (if directly related to a specific award)
- Cost of materials supplied from stock or services rendered by specialized facilities (if directly related to a specific award)
- Program evaluation costs (if directly related to a specific award)
- Other institutional service operations (if directly related to a specific award)
- Any direct cost of a minor amount may be treated as an indirect (F&A) cost for reasons of practicality where such accounting treatment for that item of cost is consistently applied to all Federal and non-Federal cost objectives.  
Connie only includes a handful of accounts for each grant. You cannot charge it unless those accounts exist.

The costs of certain activities are not allowable as charges to Federal awards, but nonetheless must be treated as direct costs for purposes of determining indirect (F&A) cost rates and be allocated their equitable share of PTC's indirect costs if they represent activities which include the salaries of personnel, occupy space, and benefit from PTC's indirect (F&A) costs. The costs of activities performed primarily as a service to members, clients, or the general public when significant and necessary to PTC's mission must be treated as direct

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costs whether or not allowable and be allocated an equitable share of indirect (F&A) costs. Some examples of these types of activities include:

- Maintenance of membership rolls, subscriptions, publications, and related functions
- Providing services and information to members, legislative or administrative bodies, or the public
- Promotion, lobbying, and other forms of public relations
- Conferences except those held to conduct the general administration of PTC
- Maintenance, protection, and investment of special funds not used in the operation of PTC
- Administration of group benefits on behalf of members or clients, including life and hospital insurance, annuity or retirement plans, and financial aid.

For more details, see [2 CFR Part 200.413](#).

**Indirect Costs:** Indirect costs, also known as facilities and administrative costs (F&A), are the institutional or infrastructure costs of managing and running programs that cannot be directly attributed to a program or activity. These costs include items such as printing, equipment use, accounting, utilities, professional development, security, library services, information technology services, and administrative costs that are hard to calculate but are true costs for running programs. Indirect costs are classified as either Facilities or Administration Costs.

1. "Facilities" is defined as depreciation on buildings, equipment and capital improvement, and operations and maintenance expenses. For Institutions of Higher Education (IHEs), library expenses are included in the "Facilities" category.
2. Administration is defined as general administration and general expenses such as the director's office, accounting, personnel, and all other types of expenditures not listed specifically under one of the subcategories of "Facilities" (including cross allocations from other pools, where applicable).

PTC has a federally negotiated indirect cost rate. The application of this rate in federal grants reimburses PTC for that fraction of its indirect costs that the granting agency agrees to bear.

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Costs charged to Federal awards must be **allowable, reasonable, and allocable**.

**Allowable Costs:** Costs must meet the following general criteria to be allowable under Federal awards:

- Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles
- Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items
- Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of PTC
- Be accorded consistent treatment. A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost
- Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part
- Not to be included as a cost or used to meet cost sharing or matching requirements of any other federally financed program in either the current or prior period
- Be adequately documented
- Cost must be incurred during the approved budget period. The Federal awarding agency is

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authorized, at its discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods pursuant to [200.308\(e\)\(3\)](#).

For more details, see [2 CFR Part 200.403](#).

**Reasonable Costs:** A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining the reasonableness of a given cost, consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of PTC or the proper and efficient performance of the Federal award
- The restraints or requirements imposed by such factors as: sound business practices; arm's length bargaining; Federal, state, local, tribal, and other laws, and regulations; and terms and conditions of the Federal award
- Market prices for comparable goods or services for the geographic area
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, its students, the public at large, and the Federal Government
- Whether PTC significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

For more details, see [2 CFR Part 200.404](#).

**Allocable Costs:** A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. The standard is met if the cost is incurred specifically for the Federal awards; benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart.

- All activities which benefit from PTC's indirect (F&A) cost, including unallowable activities and donated services by PTC or third parties, will receive an appropriate allocation of indirect costs
- Any cost allocable to a particular Federal award under the principles provided for in this part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons. However, this prohibition would not preclude PTC from shifting costs that are allowable under two or more Federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the Federal awards
- Direct cost allocation principles: If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding the bullet point directly above, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis. Where the purchase of equipment or other capital asset is specifically authorized under a federal award, the costs are assignable to the Federal award regardless of the use that may be made of the equipment or other capital

- asset involved when no longer needed for the purpose for which it was originally required
- If the contract is subject to Cost Accounting Standards (CAS), costs must be allocated to the contract pursuant to the CAS. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.

For more details, see [2 CFR 200.405](#).

**Unallowable costs** are those expenses which are not reimbursable under the terms and conditions of federally sponsored agreements and/or those specifically identified as unallowable under 2 CFR 200. Listed below are unallowable costs which are included, but not limited to, those referenced in the Uniform Guidance.

1. Advertising and public relations ([2 CFR Part 200.421](#))
2. Advisory councils ([2 CFR Part 200.422](#))
3. Alcoholic beverages ([2 CFR Part 200.423](#))
4. Alumni/ae activities ([2 CFR Part 200.424](#))
5. Audit services ([2 CFR Part 200.425](#))
6. Bad debts ([2 CFR Part 200.426](#))
7. Bonding costs ([2 CFR Part 200.427](#))
8. Collections of improper payments ([2 CFR Part 200.428](#))
9. Commencement and convocation costs ([2 CFR Part 200.429](#))
10. Compensation – personal services ([2 CFR Part 200.430](#))
11. Compensation – fringe benefits ([2 CFR Part 200.431](#))
12. Conferences ([2 CFR Part 200.432](#))
13. Contingency provisions ([2 CFR Part 200.433](#))
14. Contributions and donations ([2 CFR Part 200.434](#))
15. Defense and prosecution of criminal and civil proceedings, claims, appeals and patent infringements ([2 CFR Part 200.435](#))
16. Depreciation ([2 CFR Part 200.436](#))
17. Employee health and welfare costs ([2 CFR Part 200.437](#))
18. Entertainment costs ([2 CFR Part 200.438](#))
19. Equipment and other capital expenditures ([2 CFR Part 200.439](#))
20. Exchange rates ([2 CFR Part 200.440](#))
21. Fines, penalties, damages, and other settlements ([2 CFR Part 200.441](#))
22. Fundraising and investment management costs ([2 CFR Part 200.442](#))
23. Gains and losses on disposition of depreciable assets ([2 CFR Part 200.443](#))
24. General costs of government ([2 CFR Part 200.444](#))

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25. Goods or services for personal use ([2 CFR Part 200.445](#))
26. Idle facilities and idle capacity ([2 CFR Part 200.446](#))
27. Insurance and indemnification ([2 CFR Part 200.447](#))
28. Intellectual Property ([2 CFR Part 200.448](#))
29. Interest ([2 CFR Part 200.449](#))
30. Lobbying ([2 CFR Part 200.450](#))
31. Losses on other awards or contracts ([2 CFR Part 200.451](#))
32. Maintenance and repair costs ([2 CFR Part 200.452](#))
33. Materials and supplies costs, including costs of computing devices ([2 CFR Part 200.453](#))
34. Memberships, subscriptions, and professional activity costs ([2 CFR Part 200.454](#))
35. Organization costs ([2 CFR Part 200.455](#))
36. Participant support costs ([2 CFR Part 200.456](#))
37. Plant and security costs ([2 CFR 200.457](#))
38. Pre-award costs ([2 CFR 200.458](#))
39. Professional service costs ([2 CFR 200.459](#))
40. Proposal costs ([2 CFR 200.460](#))
41. Publication and printing costs ([2 CFR 200.461](#))
42. Rearrangement and reconversion costs ([2 CFR 200.462](#))
43. Recruiting costs ([2 CFR 200.463](#))
44. Relocation costs of employees ([2 CFR 200.464](#))
45. Rental costs of real property and equipment ([2 CFR 200.465](#))
46. Scholarships and student aid costs ([2 CFR 200.466](#))
47. Selling and marketing costs ([2 CFR 200.467](#))
48. Specialized service facilities ([2 CFR 200.468](#))
49. Student activity costs ([2 CFR 200.469](#))
50. Taxes, including Value Added Tax ([2 CFR 200.470](#))
51. Telecommunication costs and video surveillance costs ([2 CFR 200.471](#))
52. Termination costs ([2 CFR 200.472](#))
53. Training and education costs ([2 CFR 200.473](#))
54. Transportation costs ([2 CFR 200.474](#))
55. Travel costs ([2 CFR 200.475](#))
56. Trustees ([2 CFR 200.476](#))

Payments made for costs determined to be unallowable by either the Federal awarding agency, cognizant

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agency for indirect costs, or pass-through entity, either as direct or indirect costs, must be refunded (including interest to the Federal Government in accordance with instructions from the Federal agency that determined the costs are unallowable unless Federal statute or regulation directs otherwise. (See <https://www.ecfr.gov/current/title-2/section-200.410>). Questions about the allowability and treatment of expenses charged to sponsored projects should be directed to the PTC Grants Manager and the Senior Manager of Accounting.

## Accounting Treatment

Uniform Guidance requires specific identification of unallowable costs in accounting records. While Departments may still incur these expenses, they must be coded as unallowable so that they can be readily identified and excluded from the indirect cost calculation.

1. Unallowable costs are identified and segregated in PTC's accounting systems.
  - a. In Microsoft Great Plains, unallowable costs are identified and excluded based on account codes created by the Grants Manager and the Senior Director of Accounting. Additionally, they are flagged by a user-defined unallowable cost field on the GL Account.
2. For federal grant account code set-up, only account codes for allowable costs are added to the grant cost center, and Principal Investigators are only able to use the cost centers set up for the particular grant(s) on which they are PIs.
3. At the beginning of each grant, the Project Team is required to attend a Notice of Award Meeting and review a Sponsored Programs Announcement Sheet, which includes information about allowable and unallowable costs, and to review PTC's Allowable Costs, Indirect Costs, Participant Support, Purchasing, Time and Effort, and Grant Policies.
4. Together, the Principal Investigator and Grants Manager code and approve all invoices with the proper account code to avoid charging unallowable costs to the grant. The Grants Manager signs off on all grant-related invoices once coded and approved.
5. PTC's Accounts Payable Representative reviews each invoice to ensure that the Grants Manager has reviewed and signed it as outlined above.
6. On a monthly basis, all direct grant account coding is reviewed in detail by the Grants Manager and Senior Director of Accounting for allowable and unallowable costs coded to a grant cost center. Any unallowable costs are identified and reclassified to a cost center not associated with any federal grants. This is considered a secondary review, after direct costs are coded to the grant cost center. An unallowable cost mistakenly charged to a sponsored award must be transferred 1) to the PI's department account or 2) to a non-sponsored unrestricted account via a Cost Transfer (see PTC's Cost Transfer policy).
  - a. Additionally, the Grants Manager and Senior Director of Accounting hold a budget reconciliation meeting prior to any drawdowns of funding.

## Responsibility

- The Principal Investigator (PI) ensures that all transactions occur within the project period; are properly documented; are reasonable, allocable, allowable, and consistently applied; meet the limitations of the sponsor-approved budget; and occur within the required timeframe for submitting a cost transfer or budget revision.

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- The Senior Director of Accounting will review payroll/fringe benefits charges and internal charges and discuss with the Grants Manager and PI as appropriate. For payroll corrections, the employee will submit a correcting timesheet including a brief explanation. For non-timesheet payroll corrections, the Payroll Office will initiate a payroll reallocation and maintain documentation of the transaction.
- All labor and travel expenses are approved by the PI prior to being posted to the general ledger, and travel expenses receive a secondary review by the Grants Manager and Senior Director of Accounting.
- The PI also approves Procurement Purchases, which will be reviewed by the Grants Manager and Senior Director of Accounting, as well as the Coordinator of Business and Purchasing Services, to ensure that the Procurement Process has been followed correctly. Purchase Orders will be prepared by the PI and then forwarded to the Grants Manager for approval before following all other standard purchasing procedures. The PI will then forward the Purchase Order to the Purchasing Department for processing.
- The PI reviews, approves, and submits invoices and check requests for payment directly to the Grants Manager. The Grants Manager receives and reviews all invoices for allowability of costs before forwarding to Purchasing and the Senior Manager of Accounting. The Grants Manager also instigates the transfer of unallowable costs. Then, once a month, the Grants Manager and Senior Manager of Accounting meet to review all budgets to ensure that all costs posted to the grant are correct, reasonable, allowable, and allocable. The Senior Manager of Accounting also monitors sponsored awards for unallowable costs, processes correcting entries for the transfer of unallowable costs to other accounts as necessary for sponsored programs and maintains a chart of accounts that restricts unallowable costs to other project accounts to capture the specific unallowable activities for project reporting or budgeting.
- During review it may be determined that an overdraft might occur. If an overdraft is anticipated, the following actions may be taken: the costs may be transferred to another sponsored project that also benefited from the cost, if such transfer is allowable and allocable; or, the costs may be transferred to a departmental account. Documentation of the benefit must be explicit.
- Ninety days before the termination date of the Sponsored Project, unless an extension is requested, closeout preparation should commence. At that juncture, the PI will conduct a final review of the financial reports, report any necessary corrections to the Grants Manager, and submit the final progress report and any other sponsor deliverables to the sponsoring agency. Both the Grants Manager and Senior Director of Accounting are available to assist with this process.
- Together, the Grants Manager and the Senior Manager of Accounting work with an outside consultant to develop and negotiate F&A cost rates. When developing the F&A rate proposal, the outside consultant completes a comprehensive cost analysis to certify that unallowable expenses are not included in the F&A rate calculation. This analysis is reviewed and confirmed by PTC's Chief Financial Officer. Furthermore, the Grants Manager and Senior Manager of Accounting are responsible for direct versus F&A compliance and cost implementation.

## Source

[2 CFR Part 200 - UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS | CFR | US Law | LII / Legal Information Institute \(cornell.edu\)](#)

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[2 CRF Part 200 Subpart E – Cost Principles](#)