

Procedures for Unallowable Costs

A list of costs that are considered “unallowable” for federal reimbursement is contained within OMB Circular A-21 (Principles for Determining Costs Applicable to Grants, Contracts, and Other Agreements with Educational Institutions). These regulations serve as the document that the MSU Office of Sponsored Programs (OSP) must follow in its policies and procedures for handling federally funded sponsored programs expenditures. The URL is: <https://www.ecfr.gov/cgi-bin/text-idx?node=2:1.1.2.2.1&rgn=div5>.

The MSU OSP performs several levels of review for OSP managed expenditures and serves as the primary oversight office of extra mural awards. Prior to submission of a proposal, a review of the proposed costs is conducted by the OSP Fiscal Manager to ensure that no unallowable costs are requested from the sponsor. Then, after the award is made, specific expenditures such as equipment, general office supplies, travel and subcontracts are reviewed/approved at the OSP Fiscal Manager level. The remaining expenditure cost categories (over the risk-based amount as approved by MSU Internal Audit) are reviewed by OSP administrative support personnel, and specifically reviewed to determine if the cost meets the criteria for allowability for federal reimbursement.

The salaries budget category is scrutinized heavily by OSP personnel. The initial review for allowability occurs at the proposal stage where the Fiscal Managers carefully review personnel listed in the salary category to ensure costs meet the requirements of OMB Circular A-21. All proposals must be submitted to the OSP for review prior to submission to any sponsors. Once the award is made and personnel forms (Electronic Personnel Action Forms, Letters of Appointment and Requests for Additional Compensation) are submitted to the OSP for review/approval by the Fiscal Managers.

If a cost is identified as “unallowable” for federal reimbursement and it has not been charged to a federally funded award, the procedure is to contact the issuing department and return the pay document to that department, thereby denying payment of the expense. The department will be responsible for identifying an appropriate source of funding to cover that expense. If a cost is identified as “unallowable” for federal reimbursement and it has been charged to a federally funded award (ex: charged directly on a purchasing card), then the department is contacted and must complete an expenditure correction form removing the expense from the federal award.

In addition, the Banner administrative software system research accounting module is set up to specifically screen for costs that are unallowable for federal reimbursement by identifying account codes such as entertainment and moving them to an unallowable cost category on the OSP Inception to Date Reports. The Fiscal Manager reviews these reports and investigates any costs that are listed in the unallowable cost category and either completes a journal voucher to transfer the cost off the federal award or if an incorrect account code has been applied, completes a journal voucher to move the cost from the unallowable cost category to the correct cost category. If the expenditure is an error, the Departmental Accountant will be requested to process an expenditure correction form to remove the inappropriate expense.

Training regarding unallowable costs is provided to Principal Investigators, departmental personnel and other central office personnel via various venues such as the mandatory PI training, OSP Roundtable meetings, the OSP PI manual located on our website (<http://www.montana.edu/research/osp/piguide/index.html>) and from the OSP Fiscal Managers.

Finally, the OSP Project Closeout worksheet process to close an OSP file directs the Fiscal Manager to verify “invalid/unallowable” activity on the OSP Inception-To-Date Report is zero.

The following costs are typically unallowable as direct or indirect costs:

- Alcoholic beverages
- Bad debts
- Entertainment/social activities
- Fines and penalties
- Fundraising activities
- General purpose equipment
- Office furniture
- Student activity costs