 Brigham Young University  
Uniform Guidance  
Cost Principles and Unallowable Costs  

**Definition**  
Unallowable costs, for the purpose of these guidelines, are costs that cannot be included in the direct costs of sponsored research awards or in the university’s indirect cost rate according to OMB Uniform Guidance. These costs are not necessarily what the university considers unallowable.  

According to OMB Uniform Guidance, the tests for allowable costs are:  

1. They must be necessary and reasonable  
2. They must be allocable to sponsored agreements under the principles and methods provided in the Uniform Guidance  
3. They must be given consistent treatment through application of those generally accepted accounting principles appropriate to the circumstances  
4. They must conform to any limitations or exclusions set forth in the cost principles or in the Federal award as to types or amounts of cost items  
5. They must be adequately documented.  

Costs are considered to be reasonable if the goods or services acquired and the dollar amount of the cost:  

- Reflects a prudent and responsible action  
- Are necessary for the performance of the sponsored project  
- Are in accordance with all applicable external regulations and terms, and  
- Are consistent with university policies  

Costs are allocable when the cost:  

- Is incurred specifically to advance the work under the sponsored agreement  
- Benefits the project and other work in proportions that can be readily estimated  
- Is necessary to the overall operation of the institution (Indirect Cost)  

**Unallowable Costs**  
Uniform Guidance Subpart E Sections 200.420 to 200.475 defines principles to be applied in determining if certain types of costs are allowable. The following items are common costs listed as unallowable per federal regulations. Specific terms and conditions of a sponsored project can provide additional cost restrictions that should be noted. The following list is only a quick reference of the more common costs to be aware of.  

Unallowable activities include:  

- Alumni Activities  
- General public relations and alumni activities (to promote the institution)
- Organized Fundraising
- Student activities such as intramural activities and student clubs
- Selling and marketing of goods and services
- Lobbying
- Contingency reserves

Unallowable transactions include:

- Advertising (only certain types are allowable)
- Alcoholic beverages
- Entertainment
- First Class and other non-coach travel
- Fines and penalties
- Cash donations to other parties, such as donations to other universities
- Memorabilia or promotional materials
- Goods and services for personal use of employees
- Losses on other sponsored agreements
- Membership in civil/community/social organizations

Other costs may be unallowable depending on the circumstances. Refer to Subpart E of the Uniform Guidance for full detailed information or contact Grants & Contracts Accounting for award specific direction.

Responsibility for compliance

It is expected that the principal investigator and department approvers take primary responsibility for following these guidelines. University departments must provide sufficient detailed information describing the item purchased and the purpose to facilitate the review process.

Grants & Contracts Accounting is responsible for guidance and training to insure compliance. Departments should identify and segregate unallowable costs at the department level when the costs are incurred and recorded. All unallowable costs should be identified with the correct account code or organization (cost center).

Indirect Cost Proposal

In preparing the indirect cost proposal, most unallowable costs are identified in the University accounting records through designation of organization, program and account codes. These costs are excluded from direct and indirect cost pools allocated to sponsored agreements. Some costs are recorded in accounts that are unallowable in their entirety or in part.

Some cost centers and accounts are subject to additional review and unallowable costs are removed through specific identification. The accounting records are reviewed during the indirect cost proposal preparation to ensure that all unallowable costs have been excluded from the indirect cost pools.