Unallowable and Allowable Costs Policy

Policy Number	500.20.01	Custodian	Finance Director
Approved Date	06/05/2026		
Effective Date	06/08/2026	Review Date	04/01/2026

1. **Purpose**
   The purpose of this policy is to establish standards for determining the allowability, allocability, and proper treatment of costs charged to federally funded awards in alignment with the requirements outlined in 2 CFR Part 200 (Uniform Guidance). This policy ensures that all expenditures are necessary, reasonable, consistently applied, and supported with appropriate documentation.

2. **Persons Affected**

   2.1. Employees
   2.2. Sponsoring agencies and pass-through entities

3. **Policy**
   This policy is to ensure the following:

   3.1. Costs charged to federal awards must comply with 2 CFR Part 200, applicable federal agency requirements, Minnesota state statutes (as applicable), and institutional policies and internal controls. They must be allowable, allocable, reasonable, consistently treated, and adequately documented.

   3.2. Unallowable costs are clearly identified, segregated from allowable costs, and excluded from all federal awards, state, and other agency-funded awards, and institutional reporting requirements.

   3.2.1. Unallowable costs must not be charged, directly or indirectly, to any federal, state, or other agency award, and they are tracked per institutional accounting practices and uniform guidance cost principles.

   3.3. Costs are treated consistently as either direct or indirect across all federal, state, and institutional funding sources, in alignment with 2 CFR Part 200 requirements and Minnesota state grant standards.

   3.3.1. No cost may be charged inconsistently or assigned in a manner that circumvents allowable cost rules, administrative caps, or cost allocation methodologies approved by federal, state, or institutional authorities.

   3.4. Expenditures must be supported by adequate documentation sufficient to demonstrate compliance with federal regulations, Minnesota state requirements, institutional policies, and sponsored award terms and conditions.

4. Definitions

4.1. Allocable Cost. A cost that benefits a specific federal award and can be assigned to that award in proportion to the benefit received.

4.2. Allowable Cost. A cost that meets all criteria under 2 CFR Part 200, including being necessary, reasonable, allocable, consistently treated, and adequately documented.

4.3. Direct Costs. Costs that can be specifically identified with a particular federal award.

4.4. Indirect Costs. Costs incurred for common or shared purposes that cannot be directly assigned to a specific award.

4.5. Grant Manager. The employee who oversees PI-assigned aspects of a grant from award to closeout, including budget tracking, reporting, compliance, and ensuring the project meets its goals and sponsoring agency requirements.

4.6. Principal Investigator (PI). The employee who is responsible for the scientific, academic, or programmatic leadership of a project. The PI ensures compliance with award requirements, oversees expenditure management, and provides accurate reporting. In most cases, the PI also functions as the Grant Manager.

4.7. Reasonable Cost. A cost that reflects what a prudent person would pay under similar circumstances.

4.8. Unallowable Cost. Unallowable costs are expenses that cannot be charged to federal, state, or pass-through grants because they fail to meet the standards of necessity, reasonableness, allocability, or compliance. Costs may be unallowable under federal regulations, state grant policies, sponsor guidelines, or WETCC policies. Unallowable expenses charged to an award must be removed and repaid from non-grant sources.

5. Procedures

5.1. Determining allowable and identifying unallowable costs:

5.1.1 All costs must be necessary and reasonable for achieving the program's performance goals, objectives, and operational requirements, and must meet applicable federal, state, and institutional allowability criteria. The table below outlines general criteria for assessing allowable costs and lists examples of costs commonly considered unallowable. These examples are provided for guidance only and do not supersede sponsor-specific requirements.

Allowable Cost	Unallowable Costs
Necessary and reasonable for the performance of the award	Alcoholic beverages
	Marketing activities that are not directly related to funding scopes
Allocable to the award	Entertainment and social activities
Consistently treated as either direct or indirect	Lobbying activities
Compliance with federal and state regulations and award terms	Fines and penalties
Supported by adequate documentation	Personal expenses

5.1.2 Unallowable costs must be segregated and excluded from federal reporting.

5.2. When a cost benefits multiple programs or activities, costs must be allocated based on proportional benefits to each program. The allocation methods must be reasonable, documented, and consistently applied.

5.3. Expenditures must be supported by documentation that complies with federal, state, and institutional requirements. Documentation must clearly articulate the rationale for any cost allocation, identify the allocation methodology used, and include supporting evidence that substantiates and validates the allocation.

5.4. Cost transfers must be timely, documented, justified, and approved per institutional procedures and sponsor requirements.

5.5. The PI ensures compliance with federal, state, and institutional requirements related to the award, including monitoring expenditures, ensuring that only allowable, allocable, and reasonable costs are charged, preventing unallowable costs, maintaining appropriate documentation, providing training and guidance to project staff, and exercising stewardship over award funds.

5.6. The Finance Department maintains an accounting system that supports accurate financial tracking and reporting, provides guidance to PIs, and/or grant managers, and staff on grant administration and financial procedures, and reviews expenditures for compliance with applicable regulations.

5.7. Noncompliance with federal, state, or institutional requirements may result in significant consequences, including disallowed costs, repayment obligations, audit findings, required corrective actions, and potential loss of current and/or future funding.

Revision History

Rev. Date	Rev. No.	Revision
04/01/2026	.01	New policy