

Allowable and Unallowable Costs

What expenditure type
should I choose?

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Terms

- UG: Uniform Guidance
- Award: Document or documents that state terms, conditions, restrictions
- F&A rate: Facilities and Administrative, or “Federal Overhead” indirect cost rate.

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Why is this important?



- Federal government
 - Defines costs as allowable or unallowable for reimbursement.
 - Requires that federal funds not be used to pay unallowable* expenses so these types of expenses may NOT be charged either directly or indirectly to the federal government.

* **Not a dirty word!**

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What does this mean?

- All expenditures at Caltech, regardless of funding source, must be coded appropriately to enable campus administration to determine if the expense is allowable or unallowable so that expenses can be appropriately included or excluded from indirect cost (F&A) rate calculations.

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Who is responsible?

- The integrity of the data in Caltech's financial system depends on the knowledge and skill of each of the individuals who process financial transactions.
- To comply with Caltech's obligation to the federal government for both direct and F&A or indirect cost recovery, staff and faculty must understand
 - The distinction between allowable and unallowable costs and
 - How to code and categorize expenses correctly
- Our ability to obtain federal grants and contracts is dependent upon meeting federal requirements.

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Expenses

- Business expenses must
 - Serve a legitimate business purpose or connection
 - Be supported by adequate explanation and documentation.
- Personal expenses are
 - Incurred for personal reasons or convenience and serve no legitimate business purpose.
 - Reimbursed or paid only in extraordinary circumstances
 - Require approval of the Office of Financial Services.

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Business Purpose

- Caltech's business purpose is to support or advance the mission of the institute which is expand human knowledge and benefit society through research integrated with education.



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Appropriately charging an expense

For every single cost, we have to answer three questions

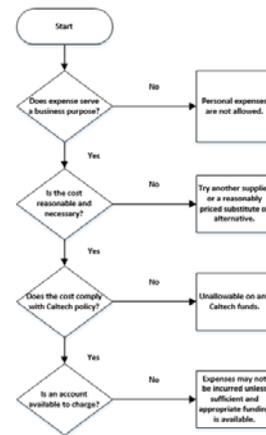
- Qualifies as a **Caltech expense**?
and
 - **Allowable** under award?
and
 - **Allocable** under UG?

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Evaluating the expense: Part I

- Does it qualify as a Caltech expense?
 - Business purpose?
 - Reasonable and necessary?
 - Complies with Caltech policy?
 - Sufficient and appropriate funding available?
 - Can we adequately document and support the expense?

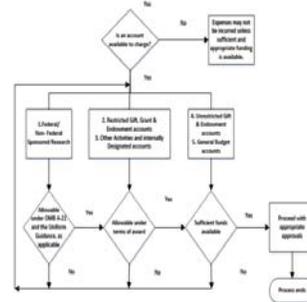


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Evaluating the expense: Part II

- Are the costs allowable as a direct or indirect cost (UG Allowable)?
 - Federal guidance
 - Terms of Award
 - Sponsored Award
 - Endowment/Gift/Private Grants
 - General Funds
 - Generally, like costs should be charged consistently
- If not allowable on a specific award, find an award that does allow the cost.
- A word about “discretionary funds”
 - “Discretionary” is a Caltech label; it does not necessarily mean that the funds are free of restrictions – contact Controller’s Office G&E rep if you have questions.



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Evaluating the expense: Part III

- Are the expenses allocable to the government?
 - Can we charge this to the government?
 - Does the cost provide direct benefits to a specific award or indirectly through the F&A rate?
 - UG tells us that certain costs are always unallocable for the F&A rate calculation.
 - We use the expenditure types as one way to identify and include or exclude costs from the calculation

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Top Categories of Expenditures

- Dues or Memberships
- Consulting
- Fees
- Meetings
- Travel
- Supplies

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Dues or Memberships Category

- Scenario 1
 - Division Chair asks that payment be processed to cover his annual dues to the La Cañada Flintridge Country Club
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - 200.454(d) This is a country club membership so unallocable
 - Expenditure Type?
 - Dues - Unallocable

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Dues or Memberships Category

- Scenario 2
 - PI needs to have his membership to American Institute of Chemical Engineers renewed
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - 200.454(a) This is a membership to a business, technical and professional organization so allocable
 - Expenditure Type?
 - Dues - Allocable

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Consulting Category

- Scenario 1
 - A new academic Division Chair wants to hire an outside consulting firm to examine the structure of the Division in order to provide guidance on how to restructure the organization.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - 200.459 Nature, scope, necessity, past patterns, qualifications, fees, adequacy of contractual agreement
 - Expenditure Type?
 - Consulting Fees or Consulting Fees Unallocable

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Fees Category

- Scenario 1
 - A PI needs to have a piece of her lab equipment serviced and plans to charge the fees for the maintenance to a gift award.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - 200.452 Maintenance and repairs that do not add to permanent value or extend useful life but keep the equipment in efficient operating condition
 - Expenditure Type?
 - Fees or Fees – Taxable OR
 - Equipment Maintenance

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Meetings Category

- Scenario 1
 - A department on campus provides bagels, juice and coffee for regularly scheduled bi-weekly staff meetings.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - Normally, food is not an allocable expense because it is difficult to argue that it is necessary especially for regularly scheduled meetings.
 - Expenditure Type?
 - Supplies - Unallocable

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Meetings Category

- Scenario 2
 - A Division celebrates birthdays each month by purchasing a birthday cake, cards, and drinks for their monthly birthday celebration.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - These are employee morale type expenses which are no longer considered allocable.
 - Expenditure Type?
 - Supplies - Unallocable

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Meetings Category

- Scenario 3
 - A lab has regularly scheduled lab meetings lasting 1 to 2 hours and provides lunch purchased from an external vendor for attendees.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - Meetings can normally be scheduled at a time other than over lunch so it is difficult to argue that it is necessary to have it over lunch requiring food be supplied to participants especially for regularly scheduled meetings.
 - Expenditure Type?
 - Catering or Supplies – Unallocable

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Meetings Category

- Scenario 4
 - A PI and a collaborator schedule an evening dinner meeting because this is the only time they can meet to discuss their collaboration due to the collaborator's tight schedule. Alcohol is served with the meal.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - Allocable since meeting is special case but need to clearly justify the timing of meeting had to be held when it was.
 - Expenditure Type?
 - Food => Mtgs and Conf Exp or Supplies – Allocable
 - Alcohol => Supplies - Unallocable

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Meetings Category

- Scenario 5

- Central administrative department has an all day business retreat. Business is conducted until mid-afternoon and then the team attends a Dodger's baseball game for team building purposes.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - Cost of business retreat are allocable but cost of Dodger's game (UG 200.438) is unallocable.
 - Expenditure Type?
 - Meeting supplies and food => Mtgs and Conf Exp - Allocable
 - Dodger's game tickets => Entertainment

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Supplies Category

- Scenario 1

- The administrative assistant in a department purchases name tags, paper plates, napkins, and plastic silverware to use for social events and business meetings.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - Costs for business meetings may be allocable but costs for social events are unallocable
 - Expenditure Type?
 - Allocable portion – Supplies - Allocable
 - Unallocable portion => Supplies - Unallocable

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Supplies Category

- Scenario 2
 - A department provides coffee and bottled water for their staff and makes it available for their staff to drink throughout the day.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - This is unallocable because water is available for staff to drink and employee's can bring their own coffee so it is not necessary.
 - Expenditure Type?
 - Supplies - Unallocable

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Supplies Category

- Scenario 3
 - Flowers are purchased for an employee that had surgery.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - Employee morale expense so unallocable
 - Expenditure Type?
 - Supplies - Unallocable

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Supplies Category

- Scenario 4
 - An academic department purchases a gift for one of their staff that is retiring.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - Employee morale expense so unallocable
 - Expenditure Type?
 - Supplies - Unallocable
 - Is the answer the same for HR purchased retirement recognition gifts?

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Travel Category

- Scenario 1
 - The Division Chair is traveling to Switzerland for a research meeting where he will be presenting. The Chair is traveling on Swiss Air.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - Compliance with Fly America Act and completion of required travel forms for Fly America Act determines allocability
 - Expenditure Type?
 - Travel Foreign – Allocable if dept/traveler completes the required forms
 - Travel – Non US Carrier if dept/traveler doesn't complete the required forms

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Travel Category

- Scenario 2
 - A faculty member is flying to Washington DC for a meeting and is flying first class.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions
 - Allocable under UG?
 - UG 200.474 Travel Costs and Caltech Travel Policy - Coach fare is allocable but difference between first class fare and coach fare is unallocable
 - Expenditure Type?
 - Coach Fare => Travel – Domestic Allocable
 - Excess Fare Costs for 1st Class => Travel – Domestic Unallocable

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Travel Category

- Scenario 3
 - A faculty member attended a research conference and is requesting reimbursement for actual expenses. The faculty member's spouse traveled with her. Alcohol was purchased as part of the employee and spouse's meals. The faculty member and spouse went to a play with some other attendees. The faculty member has asked to be reimbursed for the cost of the tickets.
 - Qualifies as a Caltech business expense?
 - Business purpose, reasonable and necessary, complies with Caltech policy, sufficient and appropriate funding available, and expense can be adequately documented and supported
 - Allowable under award?
 - Award terms and conditions and any other funding restrictions

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Travel Category

- Scenario 3 *contd.*
 - Allocable under UG?
 - UG 200.423 Alcoholic Beverages - Alcohol is unallocable
 - UG 200.438 Entertainment – Entertainment is unallocable
 - UG 200.474 Travel Costs – Meals are allocable
 - Expenditure Type?
 - Alcohol => Entertainment
 - Faculty Member's Meals => Travel – Domestic Allocable
 - Spouse's Meals and Ticket => Personal Expense not reimburseable

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Resources

- Guidance on Business Expenses
 - Policy
 - http://finance.caltech.edu/documents/502-guidance_on_business_expenses_final_09_01_2017.pdf
 - FAQs
 - http://finance.caltech.edu/documents/504-guidance_on_business_expenses_faqs_final_09_01_2017.pdf
 - Flowchart
 - http://finance.caltech.edu/documents/503-guidance_on_business_expenses_flowchart_final_09_01_2017.pdf

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Resources

- Guidance on Business Expenses - Entertainment
 - Policy
 - https://finance.caltech.edu/documents/172-guidance_on_business_expenses_-_entertainment_12_10_2017.pdf
 - FAQs
 - http://finance.caltech.edu/documents/510-guidance_on_business_expenses_-_entertainment_faqs_12_11_17.pdf

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Resources

- Travel Policies and Procedures
 - Caltech Travel Policy
 - Information on Fly America Act
 - Non-Employee Travel Policy
 - <http://procurement.caltech.edu/departments/cardquest/travel/travel-policies-procedures>

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