

Welcome to:

Which expenditure type should I
choose?

And why does it matter?

Please find a seat and
scan the QR code for the slides

Agenda

- Introduction – why this is important, what we'll cover specifically
- Decision-making process – Three Questions
- Examples/Case Studies
- Q&A with Expert Panel
 - Please try to hold questions
- Resources

Introductions

- Expert panel:
 - Rochelle Athey – Post Award Administration
 - Ted Lieu – Cost Studies
 - Monica Marquez - Procurement
 - Muriel Marroquin – Payables
 - Tess Perez – Tax Reporting Manager

Before we begin...

- A note of thanks
- And a reminder: We collectively do a pretty darn good job
 - Continuous improvement is the goal
- If you hear something new/different:
 - Please don't panic
 - Let us know and we'll sort it out

What are we talking about?

Our unit of account: “POETA” or “PTA”

Project

Org

Expenditure Type

Task

Award

What are we talking about?

To record expenses correctly we must follow three main sets of rules:

- Caltech's
 - Institute's Policies
 - Biz Exp Guidelines
 - E-type definitions
- U.S. Government's (reimbursed by sponsored award)
 - 2 CFR 200 (aka Uniform Guidance ("UG") federal regulations)
 - Direct costs
 - Indirect costs (can be contributed from any funding source)
- Donors' (Gifts and Endowments Restrictions)
 - Terms of gift agreement as opposed to 2 CFR 200

Terms

- UG: Uniform Guidance (aka 2 CFR 200)
- Award: What pays for the expense; also the source document(s) that state terms, conditions, restrictions, and scope of work for which the funding can be used.
- F&A rate: Facilities and Administrative Rate (aka “Federal Overhead Rate”; “Indirect Cost Rate”).
 - For every \$\$ of eligible research cost, Caltech recovers a certain amount (max rate in 2023, 70%), based on a complicated set of calculations.

The Three Big Questions

For every single cost, we have to answer*
three questions, every time

1 Qualifies as a **Business expense**?

and

2 **Allowable** under award?

and

3 **Allocable** according to UG?

*
and document our answer

What's the deal...

...with allowable and allocable?

Restricted funds have rules about costs, and

Basically, every cost incurred in divisions/central admin impacts the F&A rate calculation.

Why is this important?

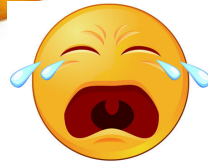
To maintain compliance with applicable rules

Maintaining compliance means:

More

with fewer

and less



Step 1: Business or Personal?

A cost must qualify as a business expense for any Caltech account to pay for it (including “discretionary,” “pool” accounts...)

If a cost is not a business expense, then it's a personal expense and not allowed on any Caltech account.

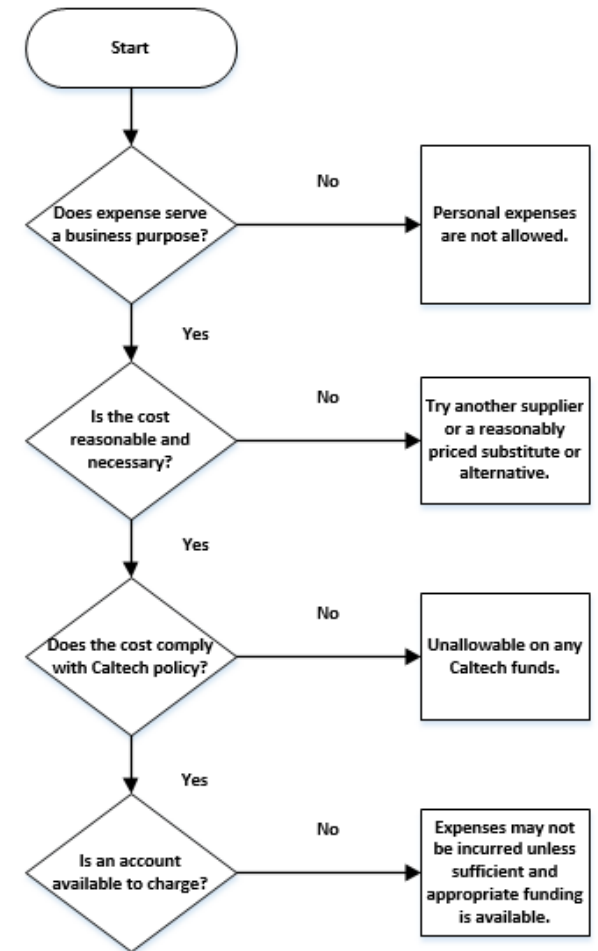
Business Expense = Cost has a Business Purpose

- 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.



Evaluating the Expense: Step 1

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



Business vs. Personal: Examples

Cost	Business	Personal
Donations	No (generally)	Yes
Art/Inspirational	No	Yes
Clothing	Boots, gloves, lab coats	Sport coat, formalwear
Luggage, Laptop bags	<u>Basic</u> laptop bag to protect a Caltech laptop	All other luggage
Office Coffee/Water	Basic is ok*	If more than basic
Airline clubs/TSA precheck	Yes only if travel requires – special approval	Generally Yes

*Acceptable for Caltech: Our DCAA auditors view as unallowable.

Also Refer to Page 4 of Business Exp Guidelines (see Finance website)

Costs Requiring Special Attention

The following is a sample of expenses that require special attention and may be unallowable in some or all circumstances:

1. Membership fees, subscriptions, and professional activity costs
 - Must serve the instruction, research or related objectives of Caltech.
 - For individuals, must support the person's job-related responsibilities.
 - In general, dues and subscriptions related to business, technical and professional organizations should not be charged to Federal awards, although these costs may be appropriate on other Caltech accounts and may be allowable for purposes of indirect cost recovery.
 - Membership fees for airline clubs, private clubs or social organizations should not be charged to Federal awards and are generally not allowable on any Caltech account. Exceptions must be approved at the appropriate level.
2. Traffic or parking tickets/citations for either personal or Caltech vehicles
 - Arising from an infraction of the law, these fines have no business purpose and are not allowable on any Caltech account.
3. Caltech Parking permits for Caltech employees and students.
 - Unallowable on any Caltech account.
4. Purchase of property solely for personal use.
 - Unallowable on any Caltech account.
5. Political contributions
 - Unallowable on any Caltech account.
6. Child care
 - Limited allowance. For details, please see the Policy on Faculty Travel on Caltech Business.
7. Gifts to other non-profit organizations and charities
 - Must be made on behalf of Caltech.
 - Must benefit Caltech, promoting goodwill, or otherwise fulfilling Caltech's role as a good member of the community.
 - Must be approved by the Provost or Vice President of Administration and Chief Financial Officer.
 - Not allowable on Federal grants and contracts.

Top Items:

- Memberships
- Fines, tickets
- Caltech parking
- Political contributions
- Child care
- Gifts to other organizations

Policies

- Guidance on Business Expenses
 - Policy
 - FAQs
 - Flowchart

- Guidance on Business Expenses (Entertainment)

See: https://finance.caltech.edu/Policies_and_Procedures

- Expenditure type descriptions

See: https://procurement.caltech.edu/documents/20546/expenditure_type_list.pdf

Step 2: Is the Cost Allowable?

- Does the award (or the rules related to that award, e.g., UG) permit the cost being charged?
- The rules on allowability vary:
 - Sponsored Awards and costs contributing to the F&A rate – one set of definitions
 - All other – another set of definitions

How do I know if my PTA is contributing to the F&A rate?

– Look it up:

https://finance.caltech.edu/Cost_Studies/Training_Materials

- Click on “Cost Allowability Rules by PTAs”
- If your award isn’t listed, please ask Cost Studies

Allowability for Sponsored Awards and Costs Contributing to the F&A Rate

- What are we talking about here?
- Technical Definition:
 - Type of cost is allowed on the award *and* meets the 8 factors listed under 2 CFR 200.403 (UG)
 - Cost is reasonable per 2 CFR 200.404
 - Cost is allocable per 2 CFR 200.405 (almost a circular reference)
 - Other consideration of allowability described under 2 CFR 200.406 through 200.408
- As a practical matter:
 - Is the cost justifiable within the scope of the award?
 - Direct cost - Examples
 - Is the cost specifically unallowable?
 - Alcohol, Gifts, Entertainment, Department social events

Allowability for Sponsored Awards and Costs Contributing to the F&A Rate (cont'd)

- Direct Costs:
 - If cost is unallowable per UG, charge the cost to a non-sponsored PTA.
- Indirect Costs:
 - If cost is unallowable per UG, charge to “Unallocable” E-type.
 - This is confusing – In Caltech’s Oracle system Unallocable usually means unallowable.
 - Important: you may still incur unallowable costs – just use an Unallocable E-type.

Allowability for Non-Sponsored Awards and Costs Not Contributing to the F&A Rate

Pretty simple - Type of cost is not specifically disallowed on the award

- You don't have to deal with UG rules to the same degree.
- Still need to determine allowability and allocability in the context of the PTA where the cost is to be recorded.
- If the cost is deemed to be allowable and allocable to the PTA, then select an "allowable E-type" (e.g., allocable E-type); otherwise, may need to either find a PTA where these costs can be charged as an allowable and allocable expense, or find a PTA where the cost can be charged as an "unallowable E-type" (e.g., unallocable E-type).

General Test for Allowability: Is Cost Justifiable Under a Specific Award?

- The cost meets the objectives and/or scope of the award and is allowed under the appropriate rules or Institute Policy.
 - Sometimes you will hear the phrase “justifiable business purpose” (especially around audits) – it’s a combination of Questions 1 and 2.
- The award purpose as well as the funding source impacts the determination of allowability and selection of E-type to use (see the example in the next slide).

Allowability Example

- Holding an educational outreach event with external parties that involves food and catering may be considered a justifiable Caltech business purpose but be recorded differently depending on the PTA that pays for the event.
 - These costs cannot be charged directly to any sponsored awards (unless outreach is a required element). “Outreach” costs are explicitly unallowable under 2 CFR 200.
 - If the costs will end up in an Indirect cost pool for the F&A rate calculation (depends upon the Award used) - “Supplies-Unallocable” E-type must be used so that these costs may be properly excluded.
 - If the costs are not incurred in any F&A pool, but are allocable to the PTA, then the expenses may be charged to “Supplies-Allocable” if these are normally allowable by the Institute, 2 CFR 200, or specific award agreement; otherwise, use “Supplies Unallocable.”

So for these latter two points, two different departments could reach different answers.

Step 3: Is the Cost Allocable?

Can you identify the proportion of the cost that actually benefits the award? (And charge no more than that?)

Remember, this is different than the “Unallocable” E-type.

In practice:

- If you're charging a restricted award directly for a cost:
 - Is the amount you're charging in proportion to the benefit flowing the award?
 - If No, you can't charge it to the award.
 - Instead, allocate the costs to another award that benefits or to general supplies on an unrestricted account.
- If you're charging an unrestricted PTA picked up in the F&A rate:
 - All costs are generally allocable if reasonable, unless UG says explicitly unallowable (pretty rare).

Recap

For every single cost, we have to answer*
three questions, every time

1 Qualifies as a **Business expense**?

and

2 **Allowable** under award?

and

3 **Allocable** according to UG?

*
and document our answer

General Quick Reference Guide for Processing Cost Transactions:

1. Is the nature of the cost associated with a business-related activity? If yes, then go to Step 2, or if not, then the cost is a personal expense and is not reimbursable through Caltech.
2. Identify a PTA with funding that is allowed to be used to pay for this type of cost.
 - a. Does the PTA contribute to the F&A Rate (follows 2 CFR Rules) - If no, then go to step 3, if yes, continue to Step 2b.
 - b. Is the cost allowable and allocable under 2 CFR 200, if yes continue to Step 2b(i), or if unallowable or unallocable, then go to Step 2b(ii).
 - (i) Select an appropriate “allowable E-type” (e.g., “allocable E-type”), regardless of whether the PTA contributes to the F&A rate as a direct (denominator in the F&A rate) or indirect cost (numerator in the F&A rate).
 - (ii) Does the PTA contribute to the F&A rate as a direct cost, if yes, then find a different PTA to charge the expense as this cost cannot be recorded in this PTA, or if no, then continue to Step 2b(iii).
 - (iii) The cost contributes to the F&A rate as an indirect cost, select an appropriate “unallowable E-type” (e.g., “unallocable E-type”). This will allow exclusion of these costs from contributing to the F&A rate.

General Quick Reference Guide for Processing Cost Transactions (cont'd):

3. For PTAs not contributing to the F&A rate, continue to Step 3a.
 - a. If the cost is always or explicitly allowable either by Institute, 2 CFR 200, or by the terms of the specific funding source agreement, then proceed to Step 3a(i).
 - (i) Is the cost “allocable” to the PTA, using a reasonable method for assigning the cost to the PTA based on a benefiting relationship between costs and the benefits received by the PTA? If yes, then continue to Step 3a(ii). If no, then find a PTA where these costs would be allocable, then go to Step 3a(ii). If a PTA cannot be identified where these costs are allocable, then go to Step 3b.
 - (ii) These costs are both allocable and allowable for this PTA; therefore, select an appropriate “allowable E-type” (e.g., “allocable E-type”).
 - b. This cost is not normally allowable by either the Institute, 2 CFR 200, or in typical funding source agreements; however, Caltech or the specific funding source has agreed to reimburse for these costs, or the cost cannot be reasonably allocated to the PTA, then go to Step 3b(i).
 - (i) Select an appropriate “unallowable E-type” (in Oracle, “Unallocable” E-type).

Examples

- Please see Supplementary / Appendix section for detailed examples

Top Areas of Questions

- Food
- Meetings and Conferences
- Travel
- Supplies
- Gifts

Food

- You can still:
 - Go to restaurants
 - Buy bagels, pizza, boba tea
 - Take invited guests out
- Refer to food guide
 - https://procurement.caltech.edu/documents/2033/food_catering_guide.pdf
- Affects several e-types

Meetings and Conferences

- Internal: See examples in Appendix
- External:
 - Individual membership required to present at a conference –
 - Direct - allowable to sponsored award only in years when presenting
 - General – attendance at conferences with business purpose – allowable under Caltech's standards – to be *allocable* must be related directly to faculty member's specific research
 - Administrative assignments, Alumni, Fundraising

Travel

- See examples in the Appendix
- Common questions:
 - Spousal travel/family travel
 - Requires approvals
 - Oracle “Unallocable” if in an F&A rate award
 - Tax reportable

Supplies

- See examples in Appendix
- For general supplies on a non-sponsored PTA:
 - Office supplies are generally allocable.
 - Party supplies: unallowable
 - Water generally unallowable

Gifts

- NEVER on sponsored awards
- Always unallowable everywhere else
- Physical gifts vs. Gift cards

Other FAQs

- When do I need receipts?
 - Receipt matrix
- Taxable or nontaxable? (sales & use tax)
 - Taxability goes with the E-type – use an extra level of care
 - Separate training :
 - Maintenance contracts – reach out to your buyer

Receipt Matrix

Expense	Receipt Required
P-Card (Goods and Services)	Always, regardless of amount
Travel:	
airfare	Always, regardless of amount
auto rental	Always, regardless of amount
lodging	Always, regardless of amount
registration	Always, regardless of amount
agency booking	If amount >\$75
baggage fees, misc fees	If amount >\$75
fuel for auto rental vehicle	If amount >\$75
meals-actual	If amount >\$75
parking	If amount >\$75
shuttle, uber, lyft	If amount >\$75
Misc. Reimbursements:	Always, regardless of amount

* Your department may have a stricter policy.

Documentation

- Full and appropriate – will a reviewer and an auditor know what was purchased and why?
- Auditors:
 - Government auditors will request a complete set of documentation (from cradle to grave) of all required documentation and proof of all approvals for every transaction they are testing within the audit based on Caltech's official written policies and working procedures.
 - Auditors are required to verify all regulations and contractor's policies and procedures were correctly implemented.
 - Non-compliance (e.g., missing documents) with any required documentation means the cost is unallowable.

Q&A

Please ask us (almost) anything!!!

Supplementary

Dues or Memberships Category

- Scenario 1

- An executive in a non-academic office that routinely meets with external parties as part of her Caltech role asks that payment be processed to cover her 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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » This is a country club membership so unallowable under CFR 200.454(d).
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - Expenditure Type?
 - Dues – Unallocable (if charged to a PTA that contributes to the F&A Rate, but cannot be charged directly to a sponsored research PTA).

Dues or Memberships Category

- Scenario 2

- An executive needs to have his membership to the Pasadena Chamber of Commerce 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.

- Is it Allowable?

- Under award? Review award terms and conditions, restrictions.

- Under UG (if in the F&A rate or charged to sponsored award)?

- » CFR 200.454(a) This is a membership to a business, technical and professional organization so allowable, except

- » Chamber of Commerce Membership fees are explicitly unallowable per 2 CFR 200.454(c).

- Allocable?

- Does the expense charged to the PTA approximate the benefits to the PTA?

- Expenditure Type?

- Dues – Unallocable if charged to a PTA that contributes to the F&A Rate, but cannot be charged directly to a sponsored research PTA).

Consulting Category

- Scenario 1

- A Caltech executive wants to hire an outside consulting firm to provide guidance on new ways to enhance communications with potential donors.
 - 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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » See CFR 200.459 Nature, scope, necessity, past patterns, qualifications, fees, adequacy of contractual agreements
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - Expenditure Type?
 - Consulting Fees or Consulting Fees Unallocable (depending upon facts and circumstances and whether or not the PTA is in the F&A rate).

Meetings Category

- Scenario 1

- A departmental office 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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » Normally, food is not an allowable expense because it is difficult to argue that it is necessary especially for regularly scheduled meetings.
 - » Only allowable if meets section 2 CFR 200.432.

Note: The government considers the cost supporting regular periodic meetings to be unallowable. Also, food & drinks for meetings that could have been scheduled at time where food and drinks could have been avoided are also unallowable.

Meetings Category

- Scenario 1 (cont'd)
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - Expenditure Type?
 - Supplies – **Unallocable generally is the best choice for any PTA– even if not in the F&A rate it is difficult to allocate benefit of food and beverages.**

Note: The government considers the cost supporting regular periodic meetings to be unallowable. Also, food & drinks for meetings that could have been scheduled at time where food and drinks could have been avoided are also unallowable.

Meetings Category

- Scenario 2
 - Departmental office 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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » These are employee morale-type expenses which are no longer considered allowable.
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - Expenditure Type?
 - Supplies – Unallocable generally is the best choice for any PTA – even if not in the F&A rate it is difficult to allocate benefit of food and beverages.

Meetings Category

- Scenario 3

- A non-academic department has regularly scheduled lab meetings lasting 1 to 2 hours and provides lunch purchased from an external vendor.
 - 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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » Unless the meeting complies with 2 CFR 200.432, these costs are unallowable.
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - 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

Meetings Category

- Scenario 4

- A Caltech executive and a potential donor schedule an evening dinner meeting because this is the only time they can meet to discuss the donor's potential donation due to the donor'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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » Unless the meeting complies with 2 CFR 200.432, these costs are unallowable. Fundraising activities are unallowable and cannot be charged to sponsored awards. Use unallowable E-type for indirect F&A PTAs.
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - In this case the meal may be allocable due to donor's schedule.
 - Expenditure Type?
 - Food => Mtgs and Conf Exp or Supplies – Allocable to non-F&A PTA.
 - Alcohol => Supplies - Unallocable

Meetings Category

- Scenario 5

- A Caltech non-academic department has an all-day business retreat. Business is conducted until mid-afternoon and then the team attends a Dodgers 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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » Costs of business retreat are allowable as indirect costs in the F&A rate.
 - » Only meetings complying with 2 CFR 200.432 can be charged directly to sponsored awards.
 - » Cost of Dodgers game (UG 200.438-Entertainment) is unallowable.

Meetings Category

Scenario 5 (cont'd)

- Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - In this case the food and supplies are allocable as a full-day meeting would reasonably include food and drink.
- Expenditure Type?
 - Meeting supplies and food => Mtgs and Conf Exp – Allocable as indirect costs in the F&A Rate.
 - Cannot be charged directly to sponsored awards.
 - Dodgers game tickets => Entertainment

Maintenance Category

- A piece of office equipment needs to be serviced and the department 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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » 200.452 Maintenance and repairs that do not add to permanent value or extend useful life but keep the equipment in efficient operating condition, and used for allowable business purposes are allowable.
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - Expenditure Type?
 - Equipment Maintenance

Supplies Category

- Scenario 1

- An administrative assistant purchases name tags, paper plates, napkins, and plastic silverware to use for donor events.
 - 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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » Generally, no: costs for social events are unallowable, fundraising costs are unallowable. Costs of business meetings may be allowable (see meetings examples).
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - Expenditure Type?
 - Generally, Supplies - Unallocable

Supplies Category

- Scenario 2

- An office 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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » This is unallowable because water is available for staff to drink and employees can bring their own coffee so it is not necessary.
 - » Food and beverages must meet 2 CFR 200.432 to be allowable.
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - » Again, it's difficult to allocate benefit to general water and coffee.
 - Expenditure Type?
 - Supplies - Unallocable

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.

- Is it Allowable?

- Under award? Review award terms and conditions, restrictions.

- Under UG (if in the F&A rate or charged to sponsored award)?

- » Employee morale expense so unallowable.

- Allocable?

- Does the expense charged to the PTA approximate the benefits to the PTA?

- » This is a difficult question for costs such as morale expenses.

- Expenditure Type?

- Supplies - Unallocable

Supplies Category

- Scenario 4
 - A department purchases a gift for a retiring staff member.
 - 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.
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » Employee morale expense so unallowable.
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - » This is a difficult question for costs such as morale expenses.
 - Expenditure Type?
 - Supplies - Unallocable

Travel Category

- Scenario 1

- A Caltech Executive 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.
 - » Requires approval
 - Is it Allowable?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » UG 200.474 Travel Costs and Caltech Travel Policy - Coach fare is allowable but difference between first class fare and coach fare is unallowable.
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - Expenditure Type?
 - Coach Fare => Travel – Domestic Allocable
 - Excess Fare Costs for 1st Class => Travel – Domestic Unallocable

Travel Category

- Scenario 2

- A Caltech Executive is attending a conference and is requesting reimbursement for actual expenses. The Executive's spouse traveled with her. Alcohol was purchased as part of the meal. The Executive and their spouse went to a play with some other attendees. The Executive is asking to be reimbursed for the cost of the tickets and meals for everyone that attended.
 - 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?
 - Under award? Review award terms and conditions, restrictions.
 - Under UG (if in the F&A rate or charged to sponsored award)?
 - » UG 200.423 Alcoholic Beverages - Alcohol is unallowable.
 - » UG 200.438 Entertainment – Entertainment is unallowable.
 - » UG 200.474 Travel Costs – Meals are allocable only for allowable events under 2 CFR 200.

Travel Category

- Scenario 2 (cont'd)
 - Allocable?
 - Does the expense charged to the PTA approximate the benefits to the PTA?
 - Expenditure Type?
 - Alcohol => Entertainment
 - Faculty Member's Meals => Travel – Domestic Allocable for allowable events.
 - Spouse's Meals and Ticket => Personal Expense not reimbursable.

§ 200.403 Factors affecting allowability of costs

§ 200.403 Factors affecting allowability of costs.

- Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:
- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) 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.
- (e) 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.
- (f) Not 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 a prior period. See also [§ 200.306\(b\)](#).
- (g) Be adequately documented. See also [§ § 200.300](#) through [200.309 of this part](#).
- (h) Cost must be incurred during the approved budget period. The Federal awarding agency is authorized, at its discretion, to waive prior written approvals to carry forward unobligated balances to subsequent budget periods pursuant to [§ 200.308\(e\)\(3\)](#).

[[78 FR 78608](#), Dec. 26, 2013, as amended at [85 FR 49562](#), Aug. 13, 2020]

§ 200.404 Reasonable Costs

§ 200.404 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. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:
 - (a) Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the non-Federal entity or the proper and efficient performance of the Federal award.
 - (b) 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.
 - (c) Market prices for comparable goods or services for the geographic area.
 - (d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal Government.
 - (e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost.

[[78 FR 78608](#), Dec. 26, 2013, as amended at [79 FR 75885](#), Dec. 19, 2014

§ 200.405 Allocable Costs

§ 200.405 Allocable costs.

- (a) 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. This standard is met if the cost:
 - (1) Is incurred specifically for the Federal award;
 - (2) 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
 - (3) 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.
- (b) All activities which benefit from the non-Federal entity's indirect (F&A) cost, including unallowable activities and donated services by the non-Federal entity or third parties, will receive an appropriate allocation of indirect costs.
- (c) 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 the non-Federal entity 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.

§ 200.405 Allocable Costs

§ 200.405 Allocable costs (continued).

- (d) 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 [paragraph \(c\)](#) of this section, 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. See also [§ § 200.310](#) through [200.316](#) and [200.439](#).
- (e) If the contract is subject to CAS, costs must be allocated to the contract pursuant to the Cost Accounting Standards. To the extent that CAS is applicable, the allocation of costs in accordance with CAS takes precedence over the allocation provisions in this part.

[[78 FR 78608](#), Dec. 26, 2013, as amended at [79 FR 75885](#), Dec. 19, 2014; [85 FR 49562](#), Aug. 13, 2020]

§ 200.406 Applicable Credits

§ 200.406 Applicable credits.

- (a) Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs. Examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate.
- (b) In some instances, the amounts received from the Federal Government to finance activities or service operations of the non-Federal entity should be treated as applicable credits. Specifically, the concept of netting such credit items (including any amounts used to meet cost sharing or matching requirements) must be recognized in determining the rates or amounts to be charged to the Federal award. (See [§ § 200.436](#) and [200.468](#), for areas of potential application in the matter of Federal financing of activities.)

[[78 FR 78608](#), Dec. 26, 2013, as amended at [79 FR 75885](#), Dec. 19, 2014; [85 FR 49562](#), Aug. 13, 2020

§ 200.407 Prior Written Approval (prior approval)

§ 200.407 Prior written approval (prior approval).

- Under any given Federal award, the reasonableness and allocability of certain items of costs may be difficult to determine. In order to avoid subsequent disallowance or dispute based on unreasonableness or nonallocability, the non-Federal entity may seek the prior written approval of the cognizant agency for indirect costs or the Federal awarding agency in advance of the incurrence of special or unusual costs. Prior written approval should include the timeframe or scope of the agreement. The absence of prior written approval on any element of cost will not, in itself, affect the reasonableness or allocability of that element, unless prior approval is specifically required for allowability as described under certain circumstances in the following sections of this part:
 - (a) [§ 200.201](#) Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts, paragraph (b)(5);
 - (b) [§ 200.306](#) Cost sharing or matching;
 - (c) [§ 200.307](#) Program income;
 - (d) [§ 200.308](#) Revision of budget and program plans;
 - (e) [§ 200.311](#) Real property;
 - (f) [§ 200.313](#) Equipment;
 - (g) [§ 200.333](#) Fixed amount subawards;
 - (h) [§ 200.413](#) Direct costs, paragraph (c);
 - (i) [§ 200.430](#) Compensation—personal services, paragraph (h);
 - (j) [§ 200.431](#) Compensation—fringe benefits;

§ 200.407 Prior Written Approval (prior approval)

§ 200.407 Prior written approval (prior approval).

- (k) [§ 200.438](#) Entertainment costs;
- (l) [§ 200.439](#) Equipment and other capital expenditures;
- (m) [§ 200.440](#) Exchange rates;
- (n) [§ 200.441](#) Fines, penalties, damages and other settlements;
- (o) [§ 200.442](#) Fund raising and investment management costs;
- (p) [§ 200.445](#) Goods or services for personal use;
- (q) [§ 200.447](#) Insurance and indemnification;
- (r) [§ 200.454](#) Memberships, subscriptions, and professional activity costs, paragraph (c);
- (s) [§ 200.455](#) Organization costs;
- (t) [§ 200.456](#) Participant support costs;
- (u) [§ 200.458](#) Pre-award costs;
- (v) [§ 200.462](#) Rearrangement and reconversion costs;
- (w) [§ 200.467](#) Selling and marketing costs;
- (x) [§ 200.470](#) Taxes (including Value Added Tax); and
- (y) [§ 200.475](#) Travel costs.

[[78 FR 78608](#), Dec. 26, 2013, as amended at [79 FR 75885](#), Dec. 19, 2014; [85 FR 49562](#), Aug. 13, 2020

§ 200.408 Limitation on Allowance of Costs

§ 200.408 Limitation on allowance of costs.

- The Federal award may be subject to statutory requirements that limit the allowability of costs. When the maximum amount allowable under a limitation is less than the total amount determined in accordance with the principles in this part, the amount not recoverable under the Federal award may not be charged to the Federal award.